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CA FINAL AUDIT MCQ BOOK

- Applicable for Nov 23
- All MCQ's are linked with Bhaskar Regular Notes.
- All MCQ's from ICAI MCQ book, MTP, RTP are covered

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PREFACE

It gives me immense pleasure in presenting our CA Final Audit MCQ Book.

CA Final exam paper on “**Advanced Auditing and Professional Ethics**” will contain 30 marks of objective based questions.

This book covers all MCQs issued by ICAI from 2018 to 2023.

- Sample Papers
- ICAI MCQ Booklet Recent Edition
- RTPs (Till May 23)
- MTPs (Till May 23)

This book has the following salient features:

- More than **600+** MCQ's issued by ICAI have been included and are rearranged chapter wise.
- Book includes **Integrated case study** based MCQ's issued by ICAI.

From inception to consummation, this project requires dedicated work, deep thinking and hours of continuous desktop work. My immense gratitude to my parents and family for their continuous support, which encourages me to accomplish my work. I also extend my heartfelt gratitude to the efforts of people for bringing this project into reality.

I am thankful to CA Vaishnavi, CS Rajni, CA Priyanka, Devesh, ACCA Akash, CA Neha, CA Anjanesh, Vaibhav B, Vaibhav R, Kunal, Rahul, Gitanjali for their support and sincere efforts in publishing this Nov 2023 Edition of MCQ Book.

I hope that students will be immensely benefitted with this book. However, there is always scope for improvement. I will be grateful to the students for their valuable feedback for improvement of this book. **Please email us at support@auditguru.in or Message/WhatsApp on 9322011915**

Happy Studying!!!!

RAVI TAORI

Special Thanks to Snehal Taori Ma'am for her important contribution in making this book.

For technical & other admin queries contact 9322011915 between 11am to 6pm

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(No MCQs in Part-1)

Part 2--SA 200 SERIES

SA 200

200.1	M19M
	<p>Don't Pay for Fun (DPF) is a start-up who is trying to get funding from investors. One of the investors has expressed interest in looking at the investment proposal but has insisted that the proposal also contain DPF's financial statements which are audited by an independent auditor. DPF engages CA Abhishek to conduct an independent audit and Abhishek issues an engagement letter for the independent audit to the owner of DPF which is duly acknowledged. DPF while finalising the financial statements is facing some difficulties so its owner requests Abhishek to provide advice as it needs to furnish the proposal to the investor fast. Since Abhishek is already engaged in the audit of the transactions, he assists DPF's accounting officer and the financial statements are finalised. Abhishek also completes the audit and presents the audit report which is provided to the investor. Has the condition set by the investor been fulfilled?</p>
	<p>a) No, the investor had asked for independent audit. b) Yes, as the audit report is issued after proper audit engagement letter and also examination of the books of accounts. c) No, because CA Abhishek did not change the terms of engagement to include the advice part along with the independent audit. In order for his audit report to be independent, he should have charged separate fees for the advice. d) Yes, DPF has hired a qualified CA to conduct the audit. Not only there is no evidence to suggest that the auditor allowed any misrepresentation, but the auditor himself advised DPF in finalising the financial statements which speaks highly of the quality of financial statements.</p>
200.2	S-1
	<p>In order to form the opinion, the auditor shall conclude as to whether the auditor has obtained _____ about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error.</p>
	<p>a) reasonable assurance b) absolute assurance c) Limited assurance d) None of the above</p>
200.3	S-1
	<p>The auditor's _____ safeguards the auditor's ability to form an audit opinion without being affected by any influences.</p>
	<p>a) Objectivity b) Independence c) Confidentiality d) Integrity</p>

200.4	S-1/SM-22
	Professional scepticism is defined as:
	<ul style="list-style-type: none"> a) An attitude to avoid significant mistakes which could influence the economic decisions of users taken on the basis of the financial statements. b) The application of relevant training, knowledge and experience in making informed decisions about the courses of action that are appropriate in the circumstances of the audit engagement. c) An analysis of management decisions in terms of failed outcomes. d) An attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of evidence.
200.5	S-1/SM-22
	Professional judgement is defined as:
	<ul style="list-style-type: none"> a) The application of relevant training, knowledge and experience, within the context provided by auditing, accounting and ethical standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the audit engagement. b) An attitude to avoid significant mistakes which could influence the economic decisions of users taken on the basis of the financial statements. c) Decision making about the requirements of the accounting profession. d) An attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of evidence.
200.6	S-1/SM-22/N22M
	The following inherent limitations in an audit affect the auditor's ability to detect material misstatements except:
	<ul style="list-style-type: none"> a) Test and sampling. b) Audit process permeated by judgement. c) Poor corporate governance. d) Audit evidence.

SA 210

210.1	S-2
	<p>Mr. Vijay Kapoor, Chartered Accountant, has been appointed the statutory auditor by M/s. XYZ Private Limited for the audit of their financial statements for the year 2015-16. The company has mentioned in the audit terms that they will not be able to provide internal audit reports to Mr. Vijay during the course of audit. Advise, whether Mr. Vijay should accept the proposed audit engagement and on what grounds he can accept/ refuse the proposal?</p> <ul style="list-style-type: none"> (i). As per SA 210 the auditor can refuse to accept the audit engagement as the management is not giving access to internal audit reports which are necessary in determining the internal controls in the company. (ii). There is no limitation on the scope of the auditor's work, so the auditor should accept the appointment. (iii). The auditor can accept the audit engagement if the management gives representation on its responsibility. Which of the following option is correct: <ul style="list-style-type: none"> a) (ii) only b) Both (i) and (iii) c) Both (ii) and (iii) d) (iii) only.

210.2	S-1
	<p>The agreed terms of the audit engagement shall be recorded in an audit engagement letter which shall include the following except-</p> <ul style="list-style-type: none"> a) Responsibilities of the auditor b) Description of methods to be followed for obtaining audit evidence. c) Responsibilities of management d) Objective and scope of the audit of the financial statements.
210.4	S-1
	<p>Your audit firm has been appointed as auditors of Red White Limited a manufacturing entity. The year under audit is 31 March 2018. While verifying account heads with high-risk areas like revenue and inventory, you identify certain issues for which you are not provided satisfactory replies and documents by the client. At the same time Red White Limited approaches, you to change the scope of the engagement. They give you the reason that they have misunderstood the scope of assignment earlier. What course of action would you adopt in this situation?</p> <ul style="list-style-type: none"> a) Accept the revised terms of engagement, as the change is resultant of change in circumstance which affect entity's requirements or misunderstanding concerning nature of service originally requested and consider aforesaid as reasonable basis for requesting change in the engagement. b) Accept the revised terms of engagement and record justification of the change in the engagement letter. c) Disagree to the revised terms and withdraw from the engagement where possible under applicable law and regulations and determine whether there is any obligation, either contractual or otherwise, to report the circumstance to other parties such as those charged with governance, owners or regulators. d) Disagree to the revised terms of the engagement and have your terms of increased fees since the scope of the engagement has changed.
210.5	SM-22
	<p>AJ Private Ltd is in the business of telecom and have significant operations across India predominantly in Northern India. The statutory auditors of the company have been continuing for the last 3 years and have been issuing clean report. For the financial year ended 31 March 2019, the statutory auditors commenced their work in March 2019 as per discussions with the management and with a plan to complete the audit by first week of May 2019.</p> <p>The audit team concluded the work as per the agreed timelines and the financial statements and audit report were signed on 5 May 2019 along with the engagement letter for the financial year ended 31 March 2019. In the given situation, please advise which of the following would be correct.</p> <ul style="list-style-type: none"> a) The engagement letter should have been signed before commencing the audit work. b) The engagement letter should have been signed at least a day before signing the audit report. c) The engagement letter should have been signed at least a day before signing the financial statements. d) The engagement letter is optional in case of a private company and hence can be signed anytime.
210.6	S-2
	<p>Best Manufacturers were required to pay Rs.20 Lakhs as signing amount and the balance amount was required to be paid in three instalments of Rs.25 lakhs each in the month of May, July and September 2017. The title deed for the land was to be transferred after the payment of second instalment in July 2017, so in the accounts for the year 2016-17 of the Best Manufacturers the payment of signing amount was booked as an expense. Your firm have been appointed as auditor of financial statements of Best Manufacturers Limited for the year 2016-17. There is conflict between Financial Reporting Framework and Legal requirement, so what will be the duty of your firm in such case?</p>

- a) Incorporate the changes in financial statements as per the legal requirement.
- b) As the title deed has not been transferred in favour of the company in the year 2016-17, there is no need to review the payment in terms of Accounting Standard or any other legal requirement.
- c) Take management representation on the same.
- d) (d) Discuss the matter with management and ensure disclosure of the same in notes to accounts. In the absence of same, the auditor may consider issuing modified opinion.

210.7	M21M
<p>Preparing the financial statements in accordance with the applicable financial reporting framework is the responsibility of the management of ABC Ltd. Which of the following is correct in regard to the disclosure of such management responsibility?</p>	
<p>(a) This is implied responsibility of management and is presumed in an audit of financial statements and therefore need not be specifically mentioned anywhere.</p> <p>(b) The management may undertake to accept such responsibility through an engagement letter itself.</p> <p>(c) The auditor's report should describe the management responsibility in a section with heading "responsibility of management for financial statements".</p> <p>(d) The auditor's report should refer to the responsibility of auditors and not that of the management as the same is obvious</p>	

210.8	N22M
<p>A small concern has approached CA. Ajeet Nath for audit of accounts for year 2021-22. It later on transpired that preparation of accounts of the concern was outsourced to a third party which was engaged in preparation of books of this concern on a cloud server and was also preparing financial statements. The discussion amongst partners regarding agreeing to audit engagement remained inconclusive. Which of the following statements is MOST APPROPRIATE regarding agreeing to audit engagement of small concern?</p>	
<p>(a) The management is responsible for preparation of books and financial statements. If management is not willing to acknowledge it, audit engagement should not be accepted.</p> <p>(b) The third party has prepared the books and financial statements. It should be acknowledged by third party and then audit engagement should be accepted.</p> <p>(c) It is implied that management is responsible for preparation of books and financial statements. No express acknowledgment from management is necessary. Hence, audit engagement should be accepted.</p> <p>(d) The management as well as third party should acknowledge joint responsibility for preparation of books and financial statements. Only then, audit engagement should be accepted.</p>	

SA 220

220.1	N19R, SM-22
<p>VKPL & Associates, a firm of Chartered Accountants, have been operating for the last 5 years having its office in Gurgaon. The firm has staff of around 25 persons with 3 Partners. The firm has been offering statutory audit, risk advisory and tax services to its various clients. The major work of the firm is for taxation services. The audit partners also discussed that the firm needs to work significantly to improve the quality of the services they offer and that would also help the firm to grown its business. Considering this objective, the firm started training programmes for the staff which were made mandatory to be attended. During one of the training programmes on quality, a topic was discussed regarding the information that should be obtained by the firm before accepting an engagement with a new client, when deciding whether to continue an existing engagement, and when considering acceptance of a new engagement with an existing client. It was explained that the following points may assist the engagement partner in determining whether the conclusions reached regarding the acceptance and continuance of client relationships</p>	

<p>and audit engagements are appropriate (as per SA 220):</p> <ul style="list-style-type: none"> (i). The integrity of the principal owners, key management and those charged with governance of the entity. (ii). The qualification of all the employees of the entity. (iii). Whether the engagement team is competent to perform the audit engagement and has the necessary capabilities, including time and resources. (iv). The remuneration offered by the entity to its various consultants. (v). Whether the firm and the engagement team can comply with relevant ethical requirements; and (vi). Significant matters that have arisen during the current or previous audit engagement, and their implications for continuing the relationship. <p>We would like to understand from you which of the above-mentioned points are relevant for the topic under discussion or not?</p>
<ul style="list-style-type: none"> a) i, ii, iv and v. b) ii, iv, v and vi. c) iii, iv, v and vi. d) i, iii, v and vi.

220.2	SM-22
<p>PMP Ltd is an associate of PMP Inc., a company based in Kuwait. PMP Ltd is listed in India having its corporate office at Assam. The company's operations have remained stable over the years and the management is looking to expand the operations for which the management is considering different business ventures.</p> <p>The company's auditors issued clean audit report on the audit of the financial statements for the year ended 31 March 2020. For the financial year ended 31 March 21, the auditors made some changes in their audit team. While the audit partner remained the same, the field in charge has been replaced as the field in charge who was engaged in the audit of the financial statements for the year ended 31 March 2020 has left the firm. The audit team has a new person as External Quality Control Reviewer (EQCR) who has specialized knowledge of the industry in which the company is operating. EQCR has been employed with the firm for over 2.5 years and is yet to clear his CA (Chartered Accountancy) final exams. The changes were made on the basis of the consideration that the firm has enough experience of engagement with this client.</p> <p>The audit team commenced the work for audit of the year ended 31 March 21 after detailed planning and it was observed that EQCR had various comments on certain matters which were not accepted by the audit partner. Audit partner had better understand of the client and after assessing the comments of the EQCR did not find those relevant. The audit partner without concurrence of the EQCR finalized the audit and issued the audit report. In the given situation, please advise which one of the following is correct?</p>	
<ul style="list-style-type: none"> a) The changes in the audit team were not appropriate except for the field in charge who had left the firm. EQCR should have been a member of the Institute of Chartered Accountants of India (ICAI). b) The audit partner did the right thing by ignoring the comments of EQCR as he is the final authority to decide on any matter and take decisions. Further EQCR was junior to the audit partner. c) The audit partner must discuss each and every comment of EQCR with the client and ensure that a proper disclosure in respect of those points should be made either in the financial statements or the audit report. d) EQCR had sufficient and appropriate experience. He should have been given the authority to objectively evaluate various matters, before the report is issued, the significant judgments the engagement team made and the conclusions they reached in formulating the report. By ignoring the comments of the EQCR, audit partner took additional professional responsibility on himself. By considering the comments of EQCR, he could have passed the responsibility to EQCR. 	

SA 230

230.1	M19R/M23M
	<p>Ram & Shyam Co LLP is an old firm of Chartered Accountants with Ram and Shyam as the audit partners. The firm has various statutory audit and internal audit engagements which are looked after by Ram and Shyam respectively. In the previous year ended 31 March 2018, one of the audit engagements of the firm was picked up for peer review and peer reviewer raised various observations regarding the audit documentation. Some of the information regarding audits were missing from the audit files as per the observation of the peer reviewer.</p> <p>Ram & Shyam are in the process of establishing a robust mechanism for audit documentation so that the same is available for a long duration and would lead to audit efficiencies also in the future years. Ram and Shyam would like to understand the period for which audit documentation should be maintained by them as per the Standard on Auditing 230. Please advise.</p> <p>a) 10 years. b) 9 years. c) 8 years. d) 7 years</p>
230.2	N19M/SM-22
	<p>KJ Private Ltd has a business of pharmaceuticals and has an annual turnover of INR 1,500 crores. During the last few years, considering the environment in which the company operates, its profit has reduced and is still falling. Hence the management has been looking at various ways to cut the costs. AD & Associates are the statutory auditors of the company and RM & Associates are the internal auditors of the company.</p> <p>Initially the company did not want to appoint any internal auditors to save costs, however, at insistence of the statutory auditors, the company appointed the internal auditors. During the course of the statutory audit for the financial year ended 31 March, 2021, the statutory auditors requested for the detailed working papers of the internal auditors which the internal auditors refused. However, the statutory auditors told the management if the same are not provided then they would qualify their report. In this situation, please advise which of the following would be correct.</p> <p>a) The statutory auditors should review the detailed working papers but they cannot qualify their report on this ground. b) The statutory auditors may review the detailed working papers and even after that they may qualify their report. c) The statutory auditors are not required to go to the extent of review of detailed working papers of internal auditors. d) The statutory auditors may review the detailed working papers of internal auditors but for that purpose they would require prior approval of the ICAI.</p>
230.3	S-3
	<p>You are the audit manager responsible for the audit of AB & Co. AB specializes in the manufacture of electricals goods for domestic use, such as irons, kettles, toasters, vacuum cleaners, coffee makers. The external audit of AB for the year ended 31 March 2018 is at the review and finalisation stage. The draft financial statements show a profit after tax of Rs.52.5 crores and a total assets of Rs. 190 crores. The following issue has been noted by the audit senior. The company has set up a provision for warranty costs of Rs.3.45 crores in the financial year. These costs are not deductible for tax purposes until AB pays the claims. The company has not made any adjustments for the provision in the financial statements. The tax rate is 20%. Which of the audit evidence would not be appropriate to be added in the audit working papers relating to the above provision?</p> <p>a) Copy of the assumptions and calculations from the management of AB to arrive at the figure of Rs.3.45 crores. b) The provision amount seems to be material since, 6.6% of the profit after tax. Auditor need to consider qualifying the audit report.</p>

- c) Calculation of the deferred tax asset as per Ind AS 12 Income Tax, since there is a deductible temporary difference arising on the provision.
- d) Written representation point from the management of AB confirming the amount of provision in respect of warranties.

SA 240

240.1	S-1
	<p>If, as a result of a misstatement resulting from fraud, the auditor encounters exceptional circumstances that bring into question his ability to continue performing the audit, he shall-</p> <ul style="list-style-type: none"> a) Withdraw from the engagement immediately. b) Report to Audit team regarding withdrawal. c) Determine the professional and legal responsibilities applicable in the circumstances. d) Ask the management for his withdrawal
240.2	N19M
	<p>You are the audit senior in charge of the audit of Swandive Co, and have been informed by your audit manager that during the current year a fraud occurred at the client. A payroll clerk sets up fictitious employees and the wages were paid into the clerk's own bank account. This clerk has subsequently left the company, but the audit manager is concerned that additional frauds have taken place in the wages department. Which of the following audit procedures would be undertaken during the audit of wages as a result of the manager's assessment of the increased risk of fraud?</p> <ol style="list-style-type: none"> 1. Discuss with the payroll manager the nature of the payroll fraud, how it occurred, and the financial impact of amounts incorrectly paid into the payroll clerk's bank account. 2. Review the supporting documentation to confirm the total of the fraudulent payments made and assess the materiality of this misstatement. 3. Review and test the internal controls surrounding setting up of and payments to new joiners to assess whether further frauds may have occurred. 4. Review the legal action taken by the management against the payroll clerk who was involved in the fraud and see whether he is punished for his actions. <ul style="list-style-type: none"> a) Audit procedures 1,2,3 b) Audit procedures 2,3,4 c) Audit procedures 1,3,4 d) Audit procedures 1,2,4
240.3	M21M
	<p>During the conduct of audit, it was found that the management has intentionally made material misstatements in the several items of the financial statements to deceive the users of the financial statements, to reduce the pressures of meeting market expectations and to increase the reputation of the company. What would be the implications on the auditor's report if no adjustments are made to the financial statements regarding the misstatements made by the management?</p> <ul style="list-style-type: none"> (a) The auditor would issue a qualified audit opinion stating that 'except for' these matters the financial statements are fairly presented. The auditor should also include a 'Basis for Qualified Opinion' paragraph below the opinion paragraph. (b) The auditor would issue an adverse audit opinion stating that 'except for' these matters the financial statements are fairly presented. The auditor should also include a 'Basis for Qualified Opinion' paragraph below the opinion paragraph. (c) The auditor would issue an adverse audit opinion stating that financial statements 'do not give a true and fair view'. The auditor should also include a 'Basis for Adverse Opinion' paragraph below the opinion paragraph. (d) The auditor would issue an adverse audit opinion stating that financial statements 'do not give a true and fair view'. The auditor should also include a 'Basis for Qualified Opinion' paragraph below the opinion paragraph.

SA 250

250.1	M19M
	<p>KJA Ltd is in the business of consultancy services. The business of the company has been growing significantly and considering the nature of business, it becomes subject to various laws and regulations. Compliances have also increased because of this and management has found this very difficult to keep in pace with the changing regulatory requirements. The statutory auditors of the company, Shilpa & Associates, have considered compliance with laws and regulations as a significant risk for the purpose of their audit.</p> <p>Auditors had a audit planning meeting with the management and management has understood that it will be their responsibility including those charged with governance to ensure that the company's operations are fully compliant with the provisions of various laws and regulations. This may also have an impact on the reported amounts and disclosures in the financial statements of the company.</p> <p>Management is planning to ensure full compliance and may implement policies and procedures, wherever required, to assist in the prevention and detection of non-compliance with laws and regulations. Please suggest among the following which one will not be a policy/ procedure to be implemented to assist in the prevention and detection of non-compliance with laws and regulations in accordance with SA 250?</p> <p>a) Maintaining a register of significant transactions of the company with comparison to particular industry and a record of complaints. b) Monitoring legal requirements and ensuring that operating procedures are designed to meet these requirements. c) Developing, publicizing and following a code of conduct. d) Instituting and operating appropriate systems of internal control.</p>
250.2	SM-22/ M23R
	<p>M/s ABC & Associates are the statutory auditors of PQR Ltd. for the FY 2020-21. While conducting the audit, CA Aman, the engagement partner noticed the following:</p> <ul style="list-style-type: none"> • Payments of various fines and penalties • Unusual cash payments • Payments to various government employees not supported by any document • Notices received from various regulatory authorities. • Heavy payments to legal counsels. <p>CA Aman should consider the above as indicative of:</p> <p>(a) Doubt on Internal Controls of PQR Ltd. (b) Doubt of non compliance to laws by PQR Ltd. (c) Doubt on the accounting system of PQR Ltd. (d) Doubt on the going concern assumption of PQR Ltd.</p>
250.3	M22M
	<p>M/s Sati and Associates were appointed as the statutory auditors of Power King Limited for the audit of financial year 2021-22. Power King Limited has a power generating plant in Sikkim. At the time of accepting the engagement, it was decided among the engagement partner (CA Sati) and the management that since CA Sati and his team is doing the audit of a client having power plant in Sikkim for the first time, it will be the duty of the management to update the audit team regarding all the taxes and statutes applicable to units situated in Sikkim. Which of the following is correct in this regard?</p> <p>(a) The engagement team, being the auditor of Sikkim based power plant for the first time can always rely on the management's information and can work accordingly. (b) The engagement team should understand the Power King Limited business environment and should obtain knowledge about the laws and statutes applicable in this case. (c) The engagement team should not accept the audit of such power plant situated in Sikkim of which</p>

	he has no prior knowledge. (d) The engagement team can very well accept the audit of Power King Limited and with respect to aspects related to Sikkim law he can give disclaimer of opinion, if required.
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250.4	M22M
<p>Shripal Company got a show cause notice from State Pollution Control Board for the contravention of the provisions of Hazardous and waste Management Rule. As per SA 250, the auditor shall perform the audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements. As the audit team of the company became aware of information concerning an instance of non-compliance with law, what would NOT be the audit procedure to be performed?</p>	
<p>(a) Understand the nature of the act and circumstances in which it has occurred and obtain further information to evaluate the possible effect on the financial statement. (b) Discuss the matter with management and if they do not provide sufficient information; and if the effect of non-compliance seems to be material, legal advice may be obtained. (c) Monitoring legal requirement and compliance with code of conduct and ensuring that operating procedures are designed to assist in the prevention of non-compliance with law and regulation and report accordingly. (d) Evaluate the implication of non-compliance in relation to other aspects of audit including risk assessment and reliability of written representation and take appropriate action</p>	

SA 260

260.1	SM-22 / N21M
<p>Ms. Kee, the engagement partner of Best Hospitality Limited's audit team did not perform the necessary communication with those charged with governance over some critical issues identified during the course of the audit. Moreover, when management identified that the engagement partner has not communicated to those charged with governance of the Best Hospitality Limited, they also chose not to communicate. Upon identification of this issue, the personnel charged with governance inquired with management and auditors as to why there was no communication of the critical matters to them. Upon such inquiry, Engagement Partner contended that it was the responsibility of Management to communicate first, then only the audit team should communicate. However, Management was of the view that they are not liable to communicate to those charged with governance. As an Engagement Quality Control Reviewer, what will be your opinion?</p>	
<p>(a) The auditor is responsible for communicating matters required by SA 260 to those charged with governance. Also, management has a responsibility to communicate matters of governance interest to those charged with governance. Communication by the auditor does not relieve management of its responsibility. (b) SAs are not applicable to the management and hence the management was not responsible for communicating the same to those charged with governance. Also, as per SA 260, Auditor can only communicate when management has already informed those charged with governance about the matters. Auditors cannot communicate first without management's communication. (c) Communication by management with those charged with governance of matters that the auditor is required to communicate does relieve the auditor of the responsibility to also communicate them if the management has already communicated. Hence, in the current case Management should have communicated as it was their responsibility. (d) SA 260 requires the auditor to perform procedures specifically to identify any other matters to communicate with those charged with governance which includes matters already communicated by the management of non-material nature. Hence, it was the responsibility of the Auditor to communicate.</p>	

Part 3 - SA 300 SERIES
SA 320

320.1	S-2
	<p>The profits of XYZ Ltd was Rs. 1000 crores for the financial year ended 31 March 2018. While planning the audit of the financial statements of XYZ Ltd, the auditor determined the materiality of Rs. 50 crores. The materiality was taken as 5% of profits of XYZ Ltd. During the course of audit, on becoming aware of information during the audit t, audit adjustments were passed which resulted in significant decline in the profits of XYZ Ltd. Post audit adjustments, the profits reduced to Rs. 500 crores. Because of the changes in profits of the company, the materiality may get reduced to Rs. 25 crores. XYZ Ltd is a large size company having a turnover of Rs. 20,000 crores for the financial year ended 31 March 2018. Considering the size of the company, the auditor believes that materiality amount should not go below Rs. 50 crores as that would result in significant increase in their work and the work of the auditor may not get completed within the required timelines. Accordingly, the auditor wants to change the basis of materiality by increasing the percentage of profits or taking revenue as the basis for computation of materiality. In the given situation, which one of the following options is correct?</p> <p>a) Considering the size of the company, the auditor may be appropriate in changing the basis of materiality to save his work.</p> <p>b) The basis of materiality cannot be changed to save the increased work of auditor if there has been additional information which resulted in decline of profits during the course of audit.</p> <p>c) The auditor need not change the materiality basis. He can complete his audit using the materiality of Rs. 50 crores which was determined initially by him while planning the audit.</p> <p>d) Since the profits of XYZ Ltd have got reduced due to audit adjustments, the same cannot be considered to be the basis for computation of materiality. Materiality has to be based on management computed numbers.</p>
320.2	SM-22
	<p>Judgements about materiality are made in the light of surrounding circumstances, and are affected by:</p> <p>(a) The auditor's perception of the financial information needs of users of the financial statements.</p> <p>(b) Both the auditor's perception of the financial information needs of users of the financial statements, the size or nature of a misstatement.</p> <p>(c) The size or nature of a misstatement.</p> <p>(d) The company's control environment.</p>
320.3	M22M
	<p>The amount of materiality initially determined needs to be revised as the audit progresses:</p> <p>a) If there is a delay in the audit.</p> <p>(b) In the event of becoming aware of information during the audit that would have caused the auditor to have determined a different amount (or amounts) initially.</p> <p>(c) Only in the event of becoming aware of information during the audit that would have caused the auditor to have determined a higher amount (or amounts) initially.</p> <p>(d) Only in the event of becoming aware of information during the audit that would have caused the auditor to have determined a lower amount (or amounts) initially.</p>

SA 330

330.1	S-3
	<p>The audit work of Amrut & Co is underway for the year ended 31 March 2018. Your audit manager asked you to look at the completeness of trade payables. The supplier statement balance for one of entity's supplier PR Co showed a difference of Rs.62,000 higher than recorded in the payable's ledger balance. Which of the following audit procedures should be performed in relation to the balance with PR Co to determine if the payables balance is understated?</p> <ol style="list-style-type: none"> Inspect the goods received note to determine when the goods were received. Inspect the purchase order to confirm it is dated before the year end. Review the post year-end cashbook for evidence of payment of the invoice. Send a confirmation request to PR Co to confirm the outstanding balance.
330.2	S-3
	<p>The main operations of PT Co are conducting training programs for the newly qualified commerce graduates to make them ready for the jobs available. The company owns a 2- storey building in the centre of the city, where they could attract lot of students for the courses offered. Currently, the trainings are provided in-house. PT has plans to expand and offer online courses as well. You are the audit senior for PT Co for the year ended 31 March 2018 and in charge of audit work on non-current assets. New furniture and white boards have been purchased during the current year. The total non-current assets shown in the financial statements stands at Rs.289.5 lakhs. Which of the following audit procedures are appropriate to test the VALUATION assertion for non-current assets?</p> <ol style="list-style-type: none"> Ensure disposals are properly accounted for and recalculate gain/loss on disposal Recalculate the depreciation charge for a sample of assets ensuring that it is being applied consistently and in accordance with Ind AS 16 Property, Plant and Equipment Review the repairs and maintenance expense account for evidence of items of a capital nature. Review board minutes of PT for evidence of disposals during the year and verify that these are appropriately reflected in the non-current assets register Agree a sample of additions included in the non-current assets register to purchase invoice and cash book. Mainly the new furniture purchased during the year by PTCO. Review physical condition of non-current assets for any sign of damage. <ol style="list-style-type: none"> Audit Procedures 1, 2, 5 and 6 Audit Procedures 1, 3, 4 and 6 Audit Procedures 2, 3, 4 and 5 Audit Procedures 3, 4, 5 and 6
330.3	S-3
	<p>The year-end audit of your client Alpha Co began shortly after the reporting period 31 March 2018. Alpha Co deals in manufacture and retailer of stationery items. Last year, you had worked on the non-current assets. This year you requested your manager to give you the work on revenue. You have been given a list of procedures to carry out on revenue and you have decided to prioritise those which deal with the key assertion of occurrence. The revenue for the current year has increased by 10% from the previous year. Which of the following substantive procedures provide evidence over the OCCURRENCE assertion for revenue?</p> <ol style="list-style-type: none"> Compare the reported revenue figure to the budget and to the previous year, investigating any significant differences. Select a sample of goods despatched notes (GDNs) and agree to invoices in the sales day book. Select a sample of invoices from the sales day book and agree to GDNs of Alpha Co Select a sample of invoices and recalculate the invoiced amount agreeing to price list shared by the finance director of Alpha Co. Option <ol style="list-style-type: none"> Procedure 1 and 3 Procedure 1 and 2

- c) Procedure 2 and 4
- d) Procedure 3 and 4

330.4	S-3
<p>Top Pizzas Co-operates a large chain of fast-food restaurants. You are an audit supervisor of Shivam& Associates and are currently preparing the audit programmes for the audit of Top Pizza's financial statements for the year ended 31 March 2018. You are reviewing the notes of last week's meeting between the audit manager and finance director where two material issues were discussed. One of the issue was on Property, plant and equipment of the entity In the past Top Pizza has received negative press reports over the condition of its fast-food restaurants, with comments suggesting they are old fashioned and tired looking. Therefore, during the year, the company undertook a full review of all its assets and carried out extensive refurbishments to the majority of its restaurants. This review resulted in a significant amount of ageing fixtures and fittings being disposed of and a significant amount of capital expenditure was invested in all remaining restaurants.</p> <p>Which of the following is not a substantive procedure to be used by the auditor to obtain sufficient and appropriate audit evidence on property, plant and equipment?</p> <ul style="list-style-type: none"> a) Obtain a breakdown of additions, cast the list and agree included in the non-current assets register to confirm completeness of fixtures and fittings. b) Select a sample of additions and agree cost to supplier invoice to confirm valuation. c) Verify rights and obligations by agreeing the addition of fixtures and fittings to a supplier invoice in the name of Top Pizza. d) Review the evidence for recalculation of depreciation charge on the additions and disposals made in the year of acquisition according to the company policy. 	

330.5	S 1
<p>You are an audit manager of DC & Co and you are currently responsible for the audit of Beauty pal Co, a company which develops and manufactures health and beauty products and distributes these to wholesale customers. Its draft profit before tax is Rs.43 lakhs and total assets are Rs.38 lakhs for the financial year ended 31 March 2018. The final audit is due to commence shortly, and the following matter has been brought to your attention:</p> <p>Beauty pal Co has a large portfolio of property, plant and equipment (PPE). In January 2018, the company carried out a full review of all its PPE and updated the useful lives, residual values, depreciation rates and methods for many categories of asset. The finance director felt the changes were necessary to better reflect the use of the assets. This resulted in the depreciation charge of some assets changing significantly for this year.</p> <p>Which of the following substantive procedure should the auditor perform to obtain sufficient and appropriate audit evidence in relation to matter of depreciation on property, plant and equipment?</p> <ul style="list-style-type: none"> a) Review the capital expenditure budgets for the next few years to assess whether the revised asset lives correspond with the planned period until replacement of the relevant asset categories. b) Inspect non-current asset accounts for a sample of purchases to ensure they have been properly allocated. c) Consider whether the proceeds on disposals of PPE are reasonable and recalculate the profit or loss disposal. d) For a sample of fully depreciated assets, inspect the register to ensure no further depreciation is charged. 	

330.6	S-3																																				
<p>You are the middle of the audit of one of your client Amy & Co for the year ended 31 March 2018. Following is the bank reconciliation statement for the month end 31 March 2018.</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 70%;">Particulars</th> <th style="width: 15%; text-align: right;">Rs</th> <th style="width: 15%; text-align: right;">Rs</th> </tr> </thead> <tbody> <tr> <td>Balance per bank statement 31 March 2018</td> <td></td> <td style="text-align: right;">1,35,111.00</td> </tr> <tr> <td>Add: deposits outstanding 30 March (ref 112)</td> <td style="text-align: right;">1,10,222.00</td> <td></td> </tr> <tr> <td>31 March (ref 113)</td> <td style="text-align: right;">25,000.00</td> <td style="text-align: right;"><u>1,35,222.00</u></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">2,70,333.00</td> </tr> <tr> <td>Less: outstanding cheques 240</td> <td style="text-align: right;">20,250.00</td> <td></td> </tr> <tr> <td>272</td> <td style="text-align: right;">12,300.40</td> <td></td> </tr> <tr> <td>274</td> <td style="text-align: right;">25,000.00</td> <td></td> </tr> <tr> <td>276</td> <td style="text-align: right;">21,345.25</td> <td></td> </tr> <tr> <td>280</td> <td style="text-align: right;">19,000.00</td> <td></td> </tr> <tr> <td>281</td> <td style="text-align: right;">22,200.00</td> <td style="text-align: right;"><u>1,20,095.65</u></td> </tr> <tr> <td>Balance per bank in the general ledger 31 March 2018.</td> <td></td> <td style="text-align: right;"><u>1,50,237.35</u></td> </tr> </tbody> </table> <p>Which of the following procedures would not be followed to verify the bank reconciliation statement?</p> <ol style="list-style-type: none"> Verify by checking paying-in slips that the uncleared banking's (deposits outstanding – ref (112 and 113) were paid in prior to the year end, and review whether they cleared quickly after the year end. Any that have not cleared soon after the year end should be investigated. Verify that the year-end balance per the general ledger according to the reconciliation (Rs.1,50,237.35) agrees with the general ledger account balance at 31 March 2018 and that this has been properly reflected in the financial statements. Scrutinize the cash book and bank statements before and after the period end for exceptional entries or transfers which have a material effect on the balance shown to be in hand. Agree the balance per bank statement at 31 March 2018 as shown on the reconciliation (Rs.1,35,111.00) to the bank statement and to the amount for that account shown on the bank letter. 		Particulars	Rs	Rs	Balance per bank statement 31 March 2018		1,35,111.00	Add: deposits outstanding 30 March (ref 112)	1,10,222.00		31 March (ref 113)	25,000.00	<u>1,35,222.00</u>			2,70,333.00	Less: outstanding cheques 240	20,250.00		272	12,300.40		274	25,000.00		276	21,345.25		280	19,000.00		281	22,200.00	<u>1,20,095.65</u>	Balance per bank in the general ledger 31 March 2018.		<u>1,50,237.35</u>
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330.7	S-1
<p>ASM Motor Cars co. manufactures a range of motor cars and its year end is 31 March 2018. You are the audit supervisor of Khanna & Associates and currently preparing the audit programmes for the year-end audit of ASM. The entity undertakes continuous production of cars, 24 hours a day, seven days a week. An inventory count is to be undertaken at the year end and Khanna & Associates will attend. You are responsible for the audit of work in progress (WIP) and will be part of the team attending the count as well as the final audit. WIP constitutes the partly assembled cars at the year end and this balance is likely to be material. ASM values WIP according to percentage of completion, and standard costs are then applied to these percentages. Which of the following is NOT a substantive procedure the auditor could perform to obtain sufficient and appropriate audit evidence in relation to the valuation of work in progress?</p> <ol style="list-style-type: none"> Discuss with management how the percentage completions are attributed to WIP. Observe the procedures carried out in the count in assessing the level of WIP; consider reasonableness of the assumptions used. During the count, verify all the percentage completions if they are in accordance with ASM's policies. Review the level of variances between standard and actual costs. 	

330.8	M19R/M23M
<p>KJA Ltd is in the business of manufacturing of tiles and sanitary ware. The company has a large inventory every year. Annual turnover of the company is INR 3000 crores. The company has 7 plants across India. The management of the company carries out physical verification of inventory every year at the time of reporting date. During the year ended 31 March 2018, it was found by the management that the inventory sheets of 31 March 2017 did not include five pages containing details of inventory worth INR 24.5 crores. Management has included this inventory in the</p>	

	<p>valuation of inventory as of 31 March 2018. Management has also explained that considering the size of the company this may happen at times as the inventory is huge and lying at various locations. Moreover, the amount of the inventory is insignificant if considered as a percentage of revenue or inventory. State how you will deal with this matter as an auditor in the accounts of the company (towards substantive audit procedures and excluding the impact on auditor's assessment under Internal Financial Control Framework) for the year ended 31 March 2018.</p>	
	<p>a) Since the matter is not relevant/ material to current period figures, no reporting in respect of this matter would be required in the auditor's report for the year ended 31 March 2018.</p> <p>b) Management should restate the financials to adjust the error. Otherwise, auditor may modify his opinion on current year's financial statements considering the materiality.</p> <p>c) Considering the matter is not relevant/ material to current period figures, the management may include a note in the financial statements and basis that no reporting in respect of this matter would be required in the auditor's report for the year ended 31 March 2018.</p> <p>d) Include an emphasis of matter because of the effects or possible effects of the error in the auditor's report for the year ended 31 March 2018.</p>	
330.9		N22M
	<p>A branch of ABC Bank was having three staff i.e., one cashier, one officer and one manager. The cashier was responsible for the signing of cash slips, passing entries for cash withdrawals and providing cash to customers. You as a Bank's branch Auditor decided to verify the cash withdrawal transactions and after testing you decided to pass the control over the cash process. Also, there were no observations identified during the testing. Moreover, as the process is present in the branch, work performed by the cashier is not monitored on daily basis. However, on a quarterly basis, certain test checks are performed by an officer of the branch. Internal Audit team reported the said controls over process as operating. You are required to guide whether reporting of the said controls by Internal Audit Team is correct or not</p>	
	<p>(a) The controls over the cash process should be reported as operating because no issues were identified during the testing of controls.</p> <p>(b) The controls over the cash process should be reported operating as test checks are being performed by officers on a quarterly basis.</p> <p>(c) This control should be reported as non-operating because segregation of duties was not present with respect to the processing of payment transactions by the cashier.</p> <p>(d). This control should be reported as non-operating as the manager of the branch should have at least 2 officers for test checks of cash transactions and for cash process.</p>	

Part 4 - SA 400 SERIES

SA 402

402.1	S2
<p>DEF Ltd has outsourced its payroll to a third entity (service organization). What should be the basis followed by the auditor of DEF Ltd in respect of audit of payroll?</p> <p>a) The auditor should obtain Type 2 report as audit evidence to support his understanding of about the design and implementation of controls at the service organization. Type 2 report would also serve as audit evidence about the operating effectiveness of those controls.</p> <p>b) The auditor may refer to the work of service auditor in his report containing an unmodified opinion and diminish his responsibility for the audit opinion.</p> <p>c) The auditor should obtain Type 1 or Type 2 report as audit evidence to support his understanding of about the design and implementation of controls at the service organization. Type 2 report would also serve as audit evidence about the operating effectiveness of those controls.</p> <p>d) Since the payroll process is outsourced to a service organization, there is nothing much an auditor can do. Auditor should audit the other information for the financial statements and accordingly should issue his opinion</p>	

402.2	SM-22
<p>XYZ Private Limited uses ERP software for all business processes. The application is hosted in cloud and is maintained by a third party. Statutory Auditor is not confident about the risk management process in the third party organization and requests for audit access to such data centre. The request was declined and management informed that the third party is ISO certified and audit on controls at Service Organisation is regularly being conducted. What the auditor should do?</p> <p>(a) Do not ask for anything else since the Third Party is ISO certified.</p> <p>(b) Insist on conducting audit in the Third Party.</p> <p>(c) Take the ISO certificate.</p> <p>(d) Take the Service Organization control audit report to review.</p>	

SA 450

450.1	N22M																												
<p>The following table shows a summary of identified misstatements:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 5%;"></th> <th style="width: 45%;"></th> <th style="width: 20%;">Profit & Loss (in Lacs)</th> <th style="width: 30%;">Balance Sheet (In Lacs)</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">1.</td> <td>Accumulated depreciation</td> <td></td> <td style="text-align: center;">20</td> </tr> <tr> <td></td> <td>Depreciation</td> <td style="text-align: center;">20</td> <td></td> </tr> <tr> <td></td> <td colspan="3">Incorrectly calculated depreciation on a straight-line basis</td> </tr> <tr> <td style="text-align: center;">2.</td> <td>Bad debt expense</td> <td style="text-align: center;">45</td> <td></td> </tr> <tr> <td></td> <td>Allowance for doubtful debt</td> <td></td> <td style="text-align: center;">45</td> </tr> <tr> <td></td> <td colspan="3">Identified risk over bad debts based on ageing profile of the trade receivables balance</td> </tr> </tbody> </table> <p>Overall materiality for this audit was calculated and agreed to be 50 lakh. Which of the following scenarios would be the best approach to be taken by the audit team and most likely outcome?</p> <p>(a) The audit team does not need to communicate this summary of identified misstatements to management, as individually the misstatements are not material.</p> <p>(b) The audit team should ask a member of the accounts team to make journal entries to correct the misstatements identified immediately, without notifying senior management.</p> <p>(c) The audit senior communicates all the identified misstatements to the appropriate level of management of the entity on a timely manner. Management does not see that the accumulated misstatements would lead to the financial statements being materially misstated and therefore, request them to be uncorrected and noted in the written representation.</p> <p>(d) The audit senior communicates all the identified misstatements to the appropriate level of management of the entity on a timely manner. Then management can assess the findings and confirm they are in agreement. Assuming management agrees, they will be requested to make the necessary corrections.</p>				Profit & Loss (in Lacs)	Balance Sheet (In Lacs)	1.	Accumulated depreciation		20		Depreciation	20			Incorrectly calculated depreciation on a straight-line basis			2.	Bad debt expense	45			Allowance for doubtful debt		45		Identified risk over bad debts based on ageing profile of the trade receivables balance		
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Part 5--SA 500 SERIES

SA 500

500.3	S-1
<p>The measure of the quality of audit evidence about its relevance and reliability in providing support for the conclusions on which the auditor's opinion is based is:</p> <p>a) Sufficiency of audit evidence b) Appropriateness of audit evidence c) Accounting estimates d) Reasonableness of audit evidence</p>	
500.5	M19M/S-3
<p>You are an audit senior at Ghaisas & Co and are currently performing the final audit of Bingham Co. for the year ended 31 March 2018. The company is a manufacturer and retailer of table lamps. The current audit senior is ill, and you have been asked to complete the audit of payroll in their absence. On arrival at the head office of Bingham Co, you determine the following data from a review of the current year and prior year audit files:</p> <ul style="list-style-type: none"> • As at 31 March 2017, the company had 350 employees • On 1 April 2017, 10% of staff were made redundant, effective immediately, due to discontinuation of a product line • On 1 June 2017, all remaining staff received a 5% pay rise. • Over the course of the year, sales levels met performance targets which resulted in a fixed bonus of Rs.8,000 being paid to each employee on 31 March 2018. <p>The following audit evidence has been gathered relating to the accuracy of wages and salaries for BinghamCo.</p> <ol style="list-style-type: none"> 1. Proof in total calculation performed by an audit team member. 2. Written representation from the directors of Bingham Co confirming the accuracy of wages and salaries. 3. Verbal confirmation from the finance director of Bingham Co confirming the accuracy of wages and salaries. 4. Recalculation of the gross and net pay for a sample of employees by an internal audit team member of Bingham Co. <p>What is the order of reliability of the audit evidence starting with the MOST RELIABLE first?</p> <p>a) Audit evidence - 1, 2, 3, 4 b) Audit evidence - 1, 4, 2, 3 c) Audit evidence - 4, 1, 2, 3 d) Audit evidence - 4, 1, 3, 2</p>	
500.6	SM-22
<p>RIM Private Ltd is engaged in the business of manufacturing of steel having annual turnover of INR 10,000 crores. The company is very capital intensive and has its plants at two locations – Mohali and Hosur. During the year ended 31 March 2021, the company carried out a detailed physical verification of its property, plant and equipment and also reassessed their useful lives by engaging a consultant. The consultant submitted its report to the management on 21 April 2021.</p> <p>The statutory auditors of the company started their audit work from May 2021 and when this information was given to them regarding the physical verification and the reassessment of the useful lives of property, plant and equipment, the auditors told the management that the consultant should have submitted its report to the auditors also independently. Further, in the absence of this direct communication of the report of the consultant to the auditors, the audit team would have to review the work of the consultant which is not efficient, but it cannot be avoided now.</p> <p>Management did not agree with both the points of the auditors that the consultant should have shared report with the auditors directly and that the auditors need to review the work of the</p>	

	consultant. The management would like to have your views on this matter.
	<p>a) The view of the management seems to be correct because there is no such requirement that any consultant of the company should share his report directly with the auditor. Also, when the consultant has already submitted a detailed report, no further review is required on that.</p> <p>b) Both the management and auditors are not correct. The auditor is not supposed to receive the report directly. Further, the auditor needs to review the work of the consultant irrespective of the fact whether he received the report directly or not.</p> <p>c) The auditor's requirements are reasonable because he carries duty in respect of audit of financial statements and by not getting report directly from the consultant, he would not know whether it belongs to that consultant or not. And now only because of this lack of proper communication the auditor would have to review the work of the consultant.</p> <p>d) Both management and auditors should find a solution to this problem. The management may request the consultant to send the report to the auditor directly now. On the basis of the same, the auditor can avoid unnecessary procedure related to review of report of the consultant.</p>

500.7	SM-22
	You are the audit senior of Tey & Co. are responsible for the audit work to be managed for the fixed assets of the company. Tey & Co. has 4 properties amounting to ₹ 12.5 crore. One of the important tasks ahead for you is to confirm the ownership of these properties. Which of the following would provide the most persuasive evidence of the ownership?
	<p>(a) To conduct a physical inspection of all the properties located at different areas.</p> <p>(b) To ask the management registration documents of these properties and inspect and verify them.</p> <p>(c) To check whether all the properties are recorded properly in the fixed asset register and depreciation has been calculated correctly.</p> <p>(d) Enquire with the management, if these properties are insured and review the insurance documentation</p>

500.8	M21M
	You are the audit manager of Ranker & Co are responsible for the audit work to be managed for the fixed assets of the company. Ranker & Co has 5 properties amounting to Rs.11.5 crore. One of the important tasks ahead for you is to confirm the ownership of these properties. Which of the following would provide the most persuasive evidence of the ownership?
	<p>(a) To conduct a physical inspection of all the properties located at different areas.</p> <p>(b) To ask the management registration documents of these properties and inspect and verify them</p> <p>(c) To check whether all the properties are recorded properly in the fixed asset register and depreciation has been calculated correctly</p> <p>(d) Enquire with the management if these properties are insured and review the insurance documentation</p>

SA 501

501.1	M19R
	You have only eight working hours for raw material inventory verification. Based on your observation during these eight hours, you have to form an opinion with respect to the correctness of inventory value calculated by the management. The company uses ERP system for updating and recording raw material inventory. The ERP system of the company has passed all the ITGC checks and inventory rates are calculated by ERP on moving average price (MAP) basis. The company has done ABC analysis of all raw material inventory items and has vast number of items in each category. You will form your opinion based on
	<p>a) Based on ABC analysis, check physical inventory of all "A" class items during allotted time and matching it with ERP stock.</p> <p>b) Understand the process of recording of inventory in ERP to ascertain potential weaknesses and checking physical inventory of mostly "A" class items, some "B" class items and some "C" class items.</p>

- c) Check physical inventory of “A” class items as much as possible along with certain “B” class items and certain “C” class items on sample basis in value wise descending order, compare the physical stock with ERP system, and tabulate the result. The exercise should be continued till the end of allotted eight hours.
- d) Check physical stock of only those items, which have standard packaging so that verification is faster considering the eight-hour time limit.

501.2	S2
<p>Your firm has been appointed as the statutory auditors of GBM Private Limited for the financial year 2017-18. While verification of company’s inventories as on 31st March 2018 you found that the significant amount of inventories belonging to the company are held by other parties. However, the company has kept all the records of the inventories maintained by other parties, what is your duty as an auditor in order to ensure that third parties are not such with whom the stock should not be held, and the stock as disclosed in company’s records actually belongs to them?</p>	
<p>a) Ensure that the total stock including the stock with third party tally with the stock register maintained by the company.</p> <p>b) Obtain confirmation from the third party/s with whom the inventories of the company are held and reconcile the same with stock register.</p> <p>c) Conduct a physical verification of stock maintained with third party/s.</p> <p>d) Obtain a written confirmation from the departmental head of the company for the inventories maintained at other places as audit evidence.</p>	

501.3	M22M
<p>M/s Brahmi and Associates have been appointed as the statutory auditor of Prompton Leaves Limited, a manufacturer of gas geysers for the FY 2021-22. During the course of audit, the auditor found that two customer complaints have been filed against the company in the FY 2021-22, for the use of sub standard pipes and wires in manufacture of gas geysers. The gas geyser blasted at high temperature leading to severe injuries to the family of complainant along with damage to their property. They have sought a demand of rupees 10 crore. However, the lawyer of Prompton Leaves Limited believes that such claim is unsustainable as the incident occurred due to short circuit at both the complainants place. The management of Prompton Leaves Limited accordingly did not include any reference to the litigation in the financial statements. The auditor obtained legal advice from some independent lawyer according to whom the outcome of the case is not ascertainable as of now</p>	
<p>(a) The statutory auditor should give an unqualified opinion.</p> <p>(b) The statutory auditor should give an unqualified opinion with Emphasis of Matter paragraph.</p> <p>(c) The statutory auditor should withdraw from the audit engagement.</p> <p>(d) The statutory auditor should give a qualified opinion.</p>	

SA 505

505.1	S-1
<p>ALM Ltd. is a trading company engaged in the business of selling readymade garments with a turnover of around Rs. 85 crore in the year 2017-18. Your firm has been appointed as statutory auditors for the year 2018-19. In the process of audit for the half year ending 30th September 2018 your senior has instructed you to verify the debtors of the company. While verifying the same it came to your notice that the company is not taking balance confirmations from the debtors and the balance shown in the books of company is considered final for the preparation of accounts. As a statutory auditor what should be your decision on the debtor’s balances:</p>	
<p>a) Statutory auditor should review the internal audit report and ensure as per section 143 of the Companies Act, 2013 that the company has adequate internal financial controls in place.</p> <p>b) There is no need to take debtors confirmation as it is immaterial for the purpose of Audit Report.</p> <p>c) The auditor is required to take external confirmation independently and wherever the auditor</p>	

gets negative or no response or the response is doubtful an alternative audit procedure should be followed.

- d) A management representation letter should be obtained by the auditor.

505.2	S-1
<p>As a Central Statutory auditor of KG Ltd. for the year 2018-19 you need to verify the bank balances for the half year ending 30th September 2018. The company is holding Bank accounts in five different banks, but you found that the bank reconciliation is not complete for some of the bank accounts. When discussed with the management they explained that the number of transactions in these accounts is very huge on daily basis and there are some old entries (existing in the reconciliation statement from the year 2008 and they are not material in nature) so it is difficult to reconcile these bank accounts. As a Central Statutory Auditor what will be your decision:</p>	
<p>a) The unusually old outstanding entries, as are not material in nature, should be removed from reconciliation statement and the balance in books of accounts should be considered as the balance for the balance sheet purpose.</p> <p>b) The auditor should confirm the appropriateness of the old outstanding entries by taking bank confirmations for the same to reduce audit risk and obtain a management representation letter on pending reconciliation.</p> <p>c) The auditor should disclose the matter in Notes to accounts of the audit report with respect to incomplete bank reconciliation.</p> <p>d) (d) The auditor should communicate it to those charged with governance as deficiency in internal control.</p>	

505.3	M19M
<p>BC Ltd. is the business of manpower consulting. The company has a huge cash and bank balance including fixed deposits with banks. During the course of audit of the financial statements of the company for the year ended 31 March 2017, auditors circulated independent bank balance confirmations. The auditors received all the balance (covering fixed deposits) confirmations independently. Auditors observed that the fixed deposits balance as per the independent balance confirmation did not match with the books balances in some cases. Management produced the fixed deposit certificates to the auditors wherein the balances of fixed assets matched with the balances as per the books. How should the auditor deal with this matter?</p>	
<p>a) Auditor should qualify the audit report in respect of differences in book balances of fixed deposits vis a vis independent balance confirmation.</p> <p>b) Auditor should consider the fixed deposit certificates produced by the management and basis that any differences in book balances of fixed deposits vis a vis independent balance confirmation should be ignored.</p> <p>c) Auditor should consider the documentation provided by the management i.e. the fixed deposit certificates, however, independent balance confirmations is also required to be considered by the auditor which shows various difference. The auditor should obtain balance confirmations again.</p> <p>d) Auditor should consider the documentation provided by the management i.e. the fixed deposit certificates, however, independent balance confirmations is also required to be considered by the auditor which shows various difference. The auditor should look to perform alternate procedures and basis that the matter should be looked at.</p>	

505.4	S-3																								
<p>The audit team has obtained the following results from the trade receivables circularization of Oak Co for the year ended 31 March 2018.</p> <table border="1"> <thead> <tr> <th>customer</th> <th>Balance as per sales ledger Rs.</th> <th>Balance as per customer Confirmation Rs.</th> <th>Comment</th> </tr> </thead> <tbody> <tr> <td>M Co</td> <td>2,25,000</td> <td>2,25,000</td> <td></td> </tr> <tr> <td>N Co</td> <td>3,50,000</td> <td>2,75,000</td> <td>Invoice raised on 28 March 2018</td> </tr> <tr> <td>O Co</td> <td>6,20,000</td> <td>4,80,000</td> <td>Payment made 30 March 2018</td> </tr> <tr> <td>P Co</td> <td>5,35,000</td> <td>5,35,000</td> <td>A balance of Rs.45,000 is currently being disputed by P Co.</td> </tr> <tr> <td>R Co</td> <td>1,78,000</td> <td>No reply</td> <td></td> </tr> </tbody> </table> <p>Which of the following statements in relation to the results of the trade receivables circularisation is TRUE?</p> <p>a) No further audit procedures need to be carried out in relation to the outstanding balances with M Co and P Co</p> <p>b) The difference in relation to N Co represents a timing difference and should be agreed to a pre-pre-year end invoice.</p> <p>c) The difference in relation to O Co represents a timing difference and should be agreed to pre-year-end bank statements.</p> <p>d) Due to the non-reply, the balance with R Co cannot be verified and a different customer balance should be selected and circularized.</p>		customer	Balance as per sales ledger Rs.	Balance as per customer Confirmation Rs.	Comment	M Co	2,25,000	2,25,000		N Co	3,50,000	2,75,000	Invoice raised on 28 March 2018	O Co	6,20,000	4,80,000	Payment made 30 March 2018	P Co	5,35,000	5,35,000	A balance of Rs.45,000 is currently being disputed by P Co.	R Co	1,78,000	No reply	
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R Co	1,78,000	No reply																							

505.6	S-1
<p>Direct confirmation procedures are performed during audit of accounts receivable balances to address the following balance sheet assertion</p> <p>a) Right and obligations</p> <p>b) Valuation</p> <p>c) Completeness</p> <p>d) Existence</p>	

505.7	SM-22
<p>MNO Ltd. is a company engaged in the manufacture of Kids toys. The company sells its goods on credit basis. M/s. Ajay Vijay & Associates have been appointed as statutory auditors of MNO Ltd. for the FY 2020-21. During the course of audit, CA Ajay, the engagement partner asks the management about the email addresses of trade receivables of the company for the purpose of obtaining balance confirmation from the trade receivables. The management of the company asked its sales supervisor to send confirmation request to the trade receivables and collect all the responses and provide all such responses to the auditor. The management of MNO Ltd. also informed CA Ajay that confirmation with respect to two of its trade receivables namely Sports Star Ltd. and Kids Zone Ltd. won't be available as a dispute between MNO Ltd. and both the trade receivables is going on. With respect to other trade receivables, the sales supervisor provided CA Ajay with all the balance confirmation. With respect to the balance confirmation request, which of the following is warranted as per the requirement of the relevant SA</p> <p>(a) CA Ajay should not have relied on the explanation provided by the management with respect to the trade receivables namely Sports Star Ltd. and Kids Zone Ltd. and he should perform alternative procedures with respect to such trade receivables.</p> <p>(b) CA Ajay should have obtained direct response from all other trade receivables instead of sales supervisor receiving direct responses from trade receivables and providing them to the auditor.</p>	

(c) Both a and b.

(d) CA Ajay should give a qualified opinion as balance confirmation with respect to two trade receivables is not available.

505.8

SM-22

Below is an extract from the list of supplier statements as at 31st March 2021 held by the Company and corresponding payables ledger balances at the same date along with some commentary on the noted differences:

Supplier	Statement balance '000	Payables ledger balance '000
Cete Company	80	60
Lice Company	185	115

The difference in the balance of Cete Company is due to an invoice which is under dispute due to defective goods which were returned on 30th March 2021. Which of the following audit procedures should be carried out to confirm the balance owing to Cete Company?

(I) Review post year-end credit notes for evidence of acceptance of return.

(II) Inspect pre year-end goods returned note in respect of the items sent back to the supplier.

(III) Inspect post year-end cash book for evidence that the amount has been settled.

(a) 1, 2 and 3.

(b) 1 and 3 only.

(c) 1 and 2 only.

(d) 2 and 3 only.

505.9

N22M

Below is an extract from the list of supplier statements as at 31st March 2022 held by the Company and corresponding payables ledger balances at the same date along with some commentary on the noted differences:

Supplier	Statement balance '000	Payables ledger balance '000
Shubh Company	78	66
Labh Company	235	205

The difference in the balance of Shubh Company is due to an invoice which is under dispute due to defective goods which were returned on 30th March 2022. Which of the following audit procedures

should be carried out to confirm the balance owing to Shubh Company?

(I) Review post year-end credit notes for evidence of acceptance of return.

(II) Inspect pre year-end goods returned note in respect of the items sent back to the supplier.

(III) Inspect post year-end cash book for evidence that the amount has been settled

(a) 1, 2 and 3.

(b) 1 and 3 only.

(c) 1 and 2 only.

(d) 2 and 3 only

SA 510

510.2

SM-22/M20M

SKJ Private Ltd is engaged in the business of construction. The company has also got some real estate projects few years back on which it started the work in the last 2 years. The annual turnover of the company is INR 600 crores and profits of INR 40 crores. The statutory auditors of the company got rotated by another audit firm due to mandatory audit rotation requirements as per the Companies Act 2013. The new statutory auditors of the company started audit of the financial statements for the year ended 31 March 2021 in May 2021. The audit team also requested the client to provide certain information on the opening balances to perform their audit procedures. Initially the management did not provide any information to the auditors on the

	<p>opening balances thinking that this is not within the scope of their work, however, after going through the auditing standards, the management agreed and provided the required information. Later on, the audit team also started requesting information for the period from 1 April 2021 to 31 May 2021. With this requirement, CFO of the company got very upset and angry and set up a meeting with the senior members of the audit team. CFO raised a concern that the audit team has not been doing the work properly and has been asking for unnecessary information like information on opening balances and then the information for the period after 31 March 2021. The audit partner explained to the CFO that everything requested by the audit team has been as per the auditing standards, however, CFO said that in the earlier years, the previous auditors never asked for such information. You are requested to give your view in respect of this matter.</p>
	<p>a) The requirement of the auditors for opening balances was valid but for the period after 31 March 2021 is completely wrong as that is out of their scope for the current year's audit. They can ask for those details during the audit of next year.</p> <p>b) The concern of the CFO was valid. He has seen the previous auditors not performing such audit procedures and hence the new audit team should also follow the same approach which was followed by previous auditors as that would lead to efficient in audit.</p> <p>c) The audit team should set up a meeting with previous auditors wherein it should be assessed why different approach was followed by the previous auditors. On the basis of that discussion with the previous auditors, next course of action should be decided.</p> <p>d) The requirement of the auditors for opening balances as well as for the period after 31 March 2021 is valid. After the requirements of SA 510 and SA 560, audit team is required to perform these procedures.</p>

SA 520

520.1		S-3
	<p>You are an audit manager with Shah & Associates and are currently performing the final audit of Kapoor Industries for the year ended 31 March 2018. The company is a manufacturer and retailer of shoes and boots. The audit senior has provided you with the following information from the review of the current year and prior year audit files, to complete the audit of payroll:</p> <ul style="list-style-type: none"> • As at 31 March 2018, Kapoor Industries had 450 full time employees and 50 part time employees. • One of the product lines was discontinued during the year, and on 1 May 2017, 10% of full-time staff and all the part time employees were made redundant. This was from immediate effect. • 10% of the employees were promoted and they received a 8% rise in their salaries. <p>Over the course of the year, sales levels met performance targets which resulted in a fixed bonus of Rs.15,000 being paid to each employee on 31 March 2018. Which of the following are substantive Analytical Procedures to be performed to complete the audit work for wages and salaries of Kapoor Industries?</p> <ol style="list-style-type: none"> 1. Trace and agree the total wages and salaries expense per the payroll system to the draft financial statements of Kapoor Industries. 2. Recalculate the gross and net pay for a sample of full time and part time employees, agree to payroll records and investigate any discrepancies. 3. Compare the current year total payroll expense to the prior year and investigate any significant differences. 4. Perform a proof in total calculation and compare expected expense to actual expense within the draft financial statements. Option. 	
	<p>a) Analytical procedure 1 and 2</p> <p>b) Analytical procedure 1 and 3</p> <p>c) Analytical procedure 2 and 4</p> <p>d) (d) Analytical procedure 3 and 4</p>	

520.2	S-3												
<p>As the external auditor of Olive Co, you have performed analytical procedures which have highlighted a 36% increase in purchases compared to the previous period. Olive Co. manufactures tools required for heavy machinery and the year under audit is 31 March 2018. Which further audit procedures would you perform in response to this?</p> <ol style="list-style-type: none"> 1. For a sample of purchase invoices around the period end, inspect the dates and compare with the dates of goods received notes and the dates recorded in the purchases and payables to confirm the application of correct cut-off. 2. Trace a sample of shipping documentation to purchases invoices and into the purchases and payables ledger. 3. For a sample of purchase transactions recorded in the ledger, vouch the purchase invoice back to supplier orders and shipping documentation. 4. For a sample of purchase invoices, examine for proper classification into purchase accounts. <p>Option</p> <ol style="list-style-type: none"> a) Procedure (1) and (2) b) Procedure (1) and (3) c) Procedure (2) and (4) d) Procedure (3) and (4) 													
520.3	S-1												
<p>The basic assumption underlying the use of analytical procedures is:</p> <ol style="list-style-type: none"> a) It helps the auditor to study relationship among elements of financial information. b) Relationship among data exist and continue in the absence of known condition to the contrary c) Analytical procedures will not be able to detect unusual relationships. d) None of the above 													
520.4	S-3												
<p>The draft financial statements of Tex Co for the year ended 31 March 2018 show the following information:</p> <table style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th></th> <th style="text-align: center;">Rs.</th> </tr> </thead> <tbody> <tr> <td>Revenue</td> <td style="text-align: right;">52,00,000</td> </tr> <tr> <td>Cost of sales</td> <td style="text-align: right;">37,00,000</td> </tr> <tr> <td>Gross profit</td> <td style="text-align: right;">15,00,000</td> </tr> <tr> <td>Trade receivables</td> <td style="text-align: right;">18,00,000</td> </tr> <tr> <td>Trade payables</td> <td style="text-align: right;">10,00,000</td> </tr> </tbody> </table> <p>The auditor has confirmed the trade payables payment period with the Tex Co staff as 98 days during the current year. This was compared with the payment period with the last year records and found out there has been a decrease of 20 days in average. Which of the following audit procedures will provide the auditor with the assertion of valuation of trade payables at the year end?</p> <ol style="list-style-type: none"> a) Review the trade accounts payables listing to identify any large debits which should be recorded as trade receivables or deposits. b) For a sample of vouchers, inspect supporting documentation, such as authorized purchase orders. c) Test transactions around the year end to determine whether amounts have been recognized in the correct financial period. d) Compare the amounts owed to a sample of individual suppliers in the trade accounts payables listing with amounts owed to these suppliers in the previous year. 			Rs.	Revenue	52,00,000	Cost of sales	37,00,000	Gross profit	15,00,000	Trade receivables	18,00,000	Trade payables	10,00,000
	Rs.												
Revenue	52,00,000												
Cost of sales	37,00,000												
Gross profit	15,00,000												
Trade receivables	18,00,000												
Trade payables	10,00,000												
520.5	SM-22												
<p>ZOV is a private limited company engaged in the business of mining. The company's operations are fairly large, and its turnover is INR 4,000 crores on an annual basis. Due to the nature of the business and the size of the company, the company has appointed a firm of Chartered Accountants</p>													

	<p>as its statutory auditors who have the relevant experience of the industry in which the company has been operating.</p> <p>During the course of the audit of the financial statements for the year ended 31 March 2021, the audit team had various observations which resulted in many adjustments in the financial statements of the company and that was also appreciated by the CFO of the company.</p> <p>At the time of final reviews of the audit team, the audit partner requested working paper on final analytical procedures from the engagement team, however, the engagement team explained that they performed substantive testing procedures which also resulted in some adjustments and the same was incorporated in the final set of financial statements given to the audit partner for the review and accordingly there was no need to perform final analytical procedures. Audit partner was not convinced with this and requested the engagement team to perform this procedure. Considering that the timeline to conclude the audit was approaching, the audit partner also requested the CFO that the audit team would need some more time to perform final analytical procedures. CFO was very impressed with the engagement team and agreed for the time, but he also told the audit partner that work of the team was excellent and hence the audit partner should avoid these additional procedures.</p> <p>You are requested to give your view in respect of this matter as per SA 520.</p> <ol style="list-style-type: none"> The explanation of the audit team was correct. After doing substantive testing which also resulted in audit adjustments, there was no need to perform final analytical procedures. The suggestion of CFO should have been considered by the audit partner as the CFO was observing the work of the engagement team and hence, he could assess that better than the audit partner. The requirement in view of the audit partner was valid. The conclusions drawn from the results of final analytical procedures are intended to corroborate conclusions formed during the audit of individual components or elements of the financial statements. The audit team did the right thing by not performing final analytical procedures, however, one additional procedure in that case should have been - obtain the document containing the analysis performed by the client on the financial statements. This document is required to be assembled in the audit file.
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520.6	S-3
	<p>One of your team members has taken leave for her final exams due in 15 days. She was working on the accruals balance of Karce & Co which could not be completed before she went on study leave. The audit manager has asked to complete the task on accruals. For the current year ended 31 March 2018, there has been an increase in the accruals by 15% as compared to the previous years. Which of the following procedures should be performed to determine if the accruals are accurate, valued and allocated correctly?</p> <ol style="list-style-type: none"> Test transaction around the year end to determine whether amounts have been recognized in the correct financial period. For a sample of accruals, recalculate the amount of the accrual to ensure the amount accrued is correct. Confirm payment of net pay per payroll records to cheque or bank transfer summary for the accruals on salaries. (d) For a sample of vouchers, compare the dates with the dates they were recorded in the ledger for application of correct cut-off.

SA 530

530.1	M19M/S-3												
<p>You are an audit senior of Pendse Accountants and are currently conducting the audit of Stalwart Co for the year ended 31 March 2018. Below is an extract from the list of supplier statements as at 31 March 2018 held by the company and corresponding payables ledger balances at the same date along with some commentary on the noted differences:</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 30%;"></th> <th style="text-align: center;">Supplier Statement balance</th> <th style="text-align: center;">Payables ledger balance</th> </tr> <tr> <th></th> <th style="text-align: center;">Rs.</th> <th style="text-align: center;">Rs.</th> </tr> </thead> <tbody> <tr> <td>AB Co</td> <td style="text-align: center;">90,000</td> <td style="text-align: center;">70,000</td> </tr> <tr> <td>CD Co</td> <td style="text-align: center;">1,85,000</td> <td style="text-align: center;">1,15,000</td> </tr> </tbody> </table> <p>AB Co: The difference in the balance is due to an invoice which is under dispute due to faulty goods which were returned on 29 March 2018. CD Co: The difference in the balance is due to the supplier statement showing an invoice dated 27 March 2018 for Rs.70,000 which was not recorded in the financial statements until after the year end. The payables clerk has advised the audit team that the invoice was not received until 3 April 2018. The audit manager has asked you to review the full list of trade payables and select balances on which supplier statement reconciliations will be performed. Which of the following statement is correct in respect of including or excluding from your sample?</p> <p>a) Exclude with material balances at the year-end. b) Exclude suppliers which have a high volume of business with Stalwart Co c) Include major suppliers with nil balances at the year-end. d) Include suppliers where the statement agrees to the ledger.</p>			Supplier Statement balance	Payables ledger balance		Rs.	Rs.	AB Co	90,000	70,000	CD Co	1,85,000	1,15,000
	Supplier Statement balance	Payables ledger balance											
	Rs.	Rs.											
AB Co	90,000	70,000											
CD Co	1,85,000	1,15,000											
530.2	S-3												
<p>RK Co is a retailer in stationery items and runs 10 shops in and around South Mumbai. In the audit plan prepared for the current year ended 31 March 2018, you have included statistical sampling method for testing the accounts payable balance. You asked your audit senior to review the results of some statistical sampling testing, which resulted in 20% of the payables balance being tested. The testing results indicate that there is a Rs. 58,000 error in the sample: Rs. 30,000 which is due to invoices not being recorded in the correct period as a result of weak controls and additionally there is a one-off error of Rs. 28,000 which was made by a temporary clerk. What would be an appropriate course of action on the basis of these results?</p> <p>a) The error is immaterial and therefore no further work is required. b) The effect of the control error should be projected across the whole population. c) RK Co should be asked to adjust the payables figure by Rs. 58,000 d) A different sample should be selected as these results are not reflective of the population</p>													
530.3	SM-22												
<p>BDJ Private Ltd was established in 2001 and since then the company's operations have grown significantly. The company is based in Kanpur and has branch offices outside Kanpur. The company is engaged in tours and travels business and because of the nature of the business, it has voluminous transactions. The annual turnover of the company is INR 700 crores. During the audit of the financial statements of the company for the year ended 31 March 2021, the auditors observed wide variation in various details of sales and various expenses as compared to last year. Various balances of trade receivables, loans and advances, statutory liabilities showed significant increase and many balances were found to be non-moving which were aged for more than 3 years. On the basis of the materiality and planned procedures, the audit team requested the client for testing of various samples for sales, expenses etc. The client observed that the number of samples that the team has requested increased as compared to last year and asked the team to cut down on the number of samples so that it is the same number of samples which were tested in the previous years.</p> <p>The audit team did not agree with this and explained various factors which the team had considered for sample selection and the reasons for changes in the samples and also explained the requirements of SA 530 to the client but the client still did not agree. Now there is a situation of</p>													

deadlock and you are requested to provide your guidance to resolve this matter.
<p>a) The argument of the client is not valid. Sample selection is based on certain principles as per SA 530 and that is on the assessment of the audit team. It may change year on year and hence the client should provide the required information to the audit team.</p> <p>b) The explanation of the audit team is not valid. Referring SA 530 was not correct in this case. The audit team should have explained their entire approach around risk assessment to the client before starting the fieldwork and should have formally shared that with the client in writing.</p> <p>c) In the given situation, the audit team instead of getting into any arguments should cut down the number of samples and should increase their procedures around analytical work. That would resolve the problem.</p> <p>d) The audit team should make a formal request in writing for these details from the client and if the client still refuses then they should report this matter to the audit partner. In that case, the auditing standards require audit partner to check some of the documents which may not be provided by the client to the audit team.</p>

530.4	SM-22
<p>Auditors do not normally examine all the information available to them as it would be impractical to do so and using audit sampling will produce valid conclusions. Random selection ensures that all items in the population have an equal chance of selection, e.g. by use of random number tables or random number generators. Block sampling method includes selection of a block or blocks of continuous items from within the organisation. Which of the following selection can be considered as block sampling method?</p> <p>(a) Auditor Mr. A divided the trade receivables into 2 groups as: balances above ` 20 lakh and balances between ` 10 lakh to ` 20 lakh and selected different percentage of items from each group.</p> <p>(b) Auditor Mr. A determined the starting point as 10 for the list of receivables and selected every 10th balance for receivables thereafter as samples to perform the tests.</p> <p>(c) Auditor Mr. A selected sample size as all the high-value balances from the list of trade receivables to ensure that these balances shown are correctly recorded.</p> <p>(d) Auditor Mr. A uses a sample of 50 consecutive cheques to test whether cheques are signed by authorised signatories rather than picking 50 single cheques throughout the year.</p>	

530.5	N21M/SM-22												
<p>While auditing Veer Ltd., CA. Vardhman divided the whole population of trade receivables balances to be tested in a few separate groups called 'strata' and started taking a sample from each of them. He treated each stratum as if it was a separate population. He divided the trade receivables balances of Veer Ltd. for the Financial Year 2020-21 into groups on the basis of personal judgment as follows:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center;">Sr.No</th> <th style="text-align: center;">Particulars</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">1</td> <td>Balances in excess of ` 10,00,000;</td> </tr> <tr> <td style="text-align: center;">2</td> <td>Balances in the range of ` 7,75,001 to ` 10,00,000;</td> </tr> <tr> <td style="text-align: center;">3</td> <td>Balances in the range of ` 5,50,001 to ` 7,75,000;</td> </tr> <tr> <td style="text-align: center;">4</td> <td>Balances in the range of ` 2,25,001 to ` 5,50,000;</td> </tr> <tr> <td style="text-align: center;">5</td> <td>Balances ` 2,25,000 and below</td> </tr> </tbody> </table> <p>From the abovementioned groups, CA. Vardhman picked up different percentage of items for examination from each of the groups, for example, from the top group i.e. balances in excess of ` 10,00,000, he selected all the items to be examined; from the second group, he opted for 25 % of the items to be examined; from the lowest group, he selected 2% of the items for examination; and so on from rest of the groups. Which one of the following methods of sample selection is he following?</p> <p>(a) Systematic sampling. (b) Stratified sampling. (c) Section sampling. (d) Selection sampling.</p>		Sr.No	Particulars	1	Balances in excess of ` 10,00,000;	2	Balances in the range of ` 7,75,001 to ` 10,00,000;	3	Balances in the range of ` 5,50,001 to ` 7,75,000;	4	Balances in the range of ` 2,25,001 to ` 5,50,000;	5	Balances ` 2,25,000 and below
Sr.No	Particulars												
1	Balances in excess of ` 10,00,000;												
2	Balances in the range of ` 7,75,001 to ` 10,00,000;												
3	Balances in the range of ` 5,50,001 to ` 7,75,000;												
4	Balances in the range of ` 2,25,001 to ` 5,50,000;												
5	Balances ` 2,25,000 and below												

530.6	M22M
<p>..... approach to sampling has the following characteristics:</p> <p>I. Random selection of the sample items; and</p> <p>II. The use of probability theory to evaluate sample results, including measurement of sampling risk.</p>	
<p>(a) Statistical sampling (b) Non-statistical sampling (c) Stratified sampling (d) Haphazard sampling</p>	

SA 550

550.1	S-19M/SM-22/N21M
<p>As per SA 550 on Related Parties, existence of which relationship indicate the presence of control or significant influence?</p>	
<p>a) Friend of a family member of a person who has the authority and responsibility for planning. b) Holding debentures in the entity. c) The entity's holding of debentures in other entities. d) The entity's holding of equity in other entities.</p>	

550.2	S-2
<p>XYZ Printers is a medium size printing press with turnover of Rs.100 crore for the financial Year 2015-16. The company buy paper rims for its press from different suppliers. You are the statutory auditor of the company for the year 2015-16 and the management has informed you that the company has bought paper rims from one of the supplier who is related to one of the director of XYZ Printers. What audit evidence do you need to collect for identifying and assessing the risk of material misstatement associated with related party transaction?</p>	
<p>a) Prior approval of the audit committee/shareholders for the transactions with the supplier, materiality/ significance of the transactions on company's financial statements, agreement entered into with the supplier and internal control for the transactions with the supplier. b) Only the prior approval of the audit committee/ shareholders for the transactions with the supplier is sufficient. c) Check whether the company has formulated any policy on dealing with related party transactions and materiality of transactions. d) As a statutory auditor you should check the internal controls and internal audit reports only</p>	

550.3	N20M
<p>"M/s Ram Raj & Associates have been appointed as statutory auditors of Venus Ltd. for the FY 2020 -21. During the year, the company has entered into some related party transactions. CA Ram, the engagement partner has taken a management representation letter regarding the proper accounting, presentation and disclosure of such related party transactions. Is there any further responsibility of CA Ram with respect to the other procedures to be performed for related party transactions?</p>	
<p>a) No, there is no further responsibility of CA Ram as the best audit evidence for the related party transaction is the management representation letter. b) No, there is no further responsibility of CA Ram as the audit firm is responsible for verifying the balances and disclosure of related party transactions. The identification of related party transactions is the responsibility of the management of Venus Ltd. c) Yes, the audit firm has the responsibility to perform the audit procedures to identify, assess and respond to the risk of material misstatement arising from the entity's failure to appropriately account for related party relationships, transactions and balances, and obtaining merely management representation letter can be considered to be sufficient appropriate audit evidence.</p>	

	d) Yes, the auditor has the responsibility to detect fraud and error with respect to the related party transactions."
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550.4	SM22 / N21M
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XYZ & Associate Chartered Accountants were appointed auditors for Weknow LLP. The engagement manager of the audit team, while designing the auditor response to assessed risk, concluded that there are no requirements of the applicable financial reporting framework for disclosing the related party transaction in the Firm's Financial Statement and hence the audit team is not required to perform any audit procedures with respect to identification and disclosure of related party relationship and transaction in financial statement. You as an engagement partner guide the engagement manager by selecting the appropriate response from below:

- a) Even if the applicable financial reporting framework establishes minimal or no related party requirements, the auditor nevertheless needs to obtain an understanding of the entity's related party relationships and transactions and should sufficiently be able to conclude whether the financial statements, insofar as they are affected by those relationships and transactions achieve a true and fair presentation and are not misleading.
- b) If the applicable financial reporting framework establishes minimal or no related party requirements, then the auditor is not required to obtain an understanding of the entity's related party relationships and transactions.
- c) Even if the applicable financial reporting framework establishes minimal or no related party requirements, the auditor nevertheless needs to obtain an understanding of the entity's related party relationships and transactions and should sufficiently be able to conclude whether the financial statements, as a whole, are free from all the material related party transactions.
- d) Because related parties are not independent of each other, hence auditor can obtain the written representation from the Related Party's auditor regarding the accuracy and completeness of the related party transactions disclosed in Firm's Financial Statement. This should only be carried where the applicable financial reporting framework establishes minimal or no related party requirements.

SA 570

570.1	S-1
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AMS & Co is a computer hardware specialist and has been trading for over 6 years. The company is funded through overdrafts and loans and by several large shareholders. The financial year end is 31 March 2017. AMS had significant growth in business in previous years; however, in the current year a new competitor BOM & Co, has entered the market and through competitive pricing has gained considerable market share from AMS. One of AMS's customers has stopped trading with them and has moved its business to BOM. In addition, a few specialist developers have left the company and joined the new company BOM. AMS has found it difficult to replace these employees due to the level of their skills and knowledge. AMS has just received notification that its main supplier who provides the company with specialist electrical equipment has ceased to trade. Which of the following audit procedures should NOT be performed in assessing whether or not AMS is a going concern?

- (a) Evaluating management's plans for the future of the business, by finding out from the financial director whether the company has gained any new customers to replace the customers lost.
- (b) Review board meeting minutes for evidence of progress on recruiting specialist developers to replace the ones who have left to join BOM.
- (c) Analyze and discuss the entity's last 2 years of financial statements to determine whether it is consistent with the cash flow forecast.
- (d) Review the correspondence with the shareholders to assess the probability that any of the shareholders choose to increase or sell their investment.

570.2	M19M
	<p>The auditor has determined that there is a significant going concern uncertainty at PQR Ltd. due to the requirement to refinance the company's debt. Discussions with the management and the auditor's evaluation of management's plans for future actions in relation to its going concern assessment have revealed that plans to raise new equity finance are realistic and likely to deal with the problem. Is it appropriate for PQR Ltd. to prepare its financial statements on a going concern basis?</p> <p>a) No, PQR Ltd. cannot prepare its financial statements on a going concern basis because a significant uncertainty exists.</p> <p>b) Yes, PQR Ltd. can prepare its financial statements on a going concern basis. However, the auditor is required to express a qualified opinion.</p> <p>c) Yes, PQR Ltd. can prepare its financial statements on a going concern basis. No additional disclosure is necessary in the financial statements or the auditor's report.</p> <p>d) Yes, PQR Ltd. can prepare its financial statements on a going concern basis. However, disclosure of both the nature of the uncertainty and management's plan is required.</p>
570.3	S2
	<p>The auditor is required to evaluate management's assessment of the entity's ability to continue as a going concern. Certain events/ conditions were identified that may cast significant doubt on the entity's ability to continue as a going concern but, based on the audit evidence obtained, the auditor concludes that no material uncertainty exists, and no disclosures are explicitly required by the applicable financial reporting framework regarding these circumstances.</p> <p>If management's assessment of the entity's ability to continue as a going concern covers less than twelve months from the date of the financial statements, the auditor is required to request management to extend its assessment period to at least twelve months from that date. The management of the company would provide the financial support letter extended by its parent company. In the given case, which one of the following options is correct?</p> <p>a) The auditor may obtain the financial support letter from the parent company for a period of 12 months from year end date.</p> <p>b) The auditor may obtain the financial support letter from the parent company for a period of 12 months from date of signing of the financial statements.</p> <p>c) The auditor may obtain the financial support letter from the parent company for a period of 12 months or less from year end date.</p> <p>d) The auditor may obtain the financial support letter from the parent company for a period of 12 months or less from date of signing of the financial statements</p>
570.4	M22M
	<p>Which of the following is not an indicator about material uncertainty over the entity's ability to continue as a going concern:</p> <p>(a) Net liability or net current liability position.</p> <p>(b) Cancellation of company's production license due to change on government policies.</p> <p>(c) Non-declaration of dividend to equity shareholders.</p> <p>(d) Substantial operating losses or significant deterioration in the value of assets used to generate cash flows.</p>

SA 580

580.1	S-3
	<p>Your firm has been appointed as the auditors of Stuart Limited, a well-established consumer goods manufacturing company. During the audit you were provided with various oral representation during meetings and discussions. While finalizing the audit you requested the management to provide such representations in writing. The management has however informed you that they are not accustomed to providing any representations to the external auditor in writing. The management is of the view that it has provided full access to whatever records, documents and evidence were available with it without any exception and that now it is the auditor's responsibility to correlate the same with the oral representations. What would be your response to the above?</p> <ol style="list-style-type: none"> a) Agree with management since you have been provided full access to whatever records, documents and evidence were available with management without any exception. b) Document that management gave oral representation in audit working paper and issue unmodified opinion. c) After corroborating the audit evidence, consider this as a scope limitation and then consider to express a qualified opinion or disclaimer of opinion or re-assess the continuation of engagement with the audit client if integrity of the management is in question. d) Give unmodified opinion and include the observation in "other matter" paragraph, stating that the written representations of the concerned matters could not be obtained.

CA RAVI TAORI

**AUDITING
STANDARDS
AND
GUIDANCE
NOTES - AN
OVERVIEW**

**Part 2--SA 200
Series**

200.1	a
200.2	a
200.3	b
200.4	d
200.5	a
200.6	c
210.1	b
210.2	b
210.4	c
210.5	a
210.6	d
210.7	c
210.8	a
220.1	d
220.2	a
230.1	d
230.2	c
230.3	b
240.1	c
240.2	a
240.3	c
250.1	a
250.2	b
250.3	b
250.4	c
260.1	a

**Part 3--SA 300
Series**

320.1	c
320.2	b
320.3	b
330.1	a
330.2	a
330.3	a
330.4	d

330.5	a
330.6	c
330.7	b
330.8	b
330.9	c

**Part 4--SA 400
Series**

402.1	c
402.2	d
450.1	d

**Part 5--SA 500
Series**

500.3	b
500.5	b
500.6	b
500.7	c
500.8	b
501.1	c
501.2	b
501.3	d
505.1	a
505.2	b
505.3	d
505.4	b
505.6	d
505.7	c
505.8	c
505.9	c
510.2	d
520.1	d
520.2	b
520.3	b
520.4	d
520.5	c
520.6	b
530.1	c
530.2	d
530.3	a
530.4	d
530.5	b
530.6	a
550.1	d

550.2	a
550.3	c
550.4	a
570.1	b
570.2	d
570.3	a
570.4	c
580.1	c

CA FINAL AUDIT MCQs

CH. 2 AUDIT PLANNING, STRATEGY AND EXECUTION**Part 1--SA 300**

300.1	SM-22
	<p>AJ Petroleum & Refining Ltd is a Maharatna Central Public Sector Undertaking (PSU) in India having its registered office in Uttranchal. It is engaged in the business of oil refining, pipeline transportation & marketing, exploration & production of crude oil & gas, petrochemicals, gas marketing and other downstream operations. The PSU has global aspirations for which its management is working on various plans/programmes so that the same can be achieved in future. It is also planning to pursue diverse business interests by setting up of various joint ventures with reputed business partners from India and abroad to explore global opportunities. Considering these objectives and other factors, the C&AG directed the performance audit in respect of its certain activities/ functions which has been in progress. Before starting the audit, the detailed scope and composition of audit team was shared with the management of the company and tentative timelines were also given with which the management was fine. However, during the course of the audit the audit team changed its audit programme to achieve the desired objectives which was approved by the competent authority, however, the management was not happy with those changes. The management wants the audit team to conclude the audit with the same scope as this is a special type of audit wherein such flexibility cannot be accepted as that would defeat the purpose of the law. However, the audit team has a different view. Please guide.</p> <p>a) Changes in audit programme in such type of audits are not acceptable as specified by the Companies Audit and Auditors Rules 2014.</p> <p>b) Changes in audit programme in such type of audits are not acceptable as specified by the Companies Audit and Auditors Rules 2014 and the Ministry of Law.</p> <p>c) Changes in audit programme in such type of audits can be accepted provided those are discussed with the management and approved by the Competent Authority.</p> <p>d) The C&AG should get involved in this matter after taking permission from the Central Government and would require to change the audit team if the scope requires any changes as the same should have been properly assessed by the audit team before commencing the audit.</p>
300.2	M19M
	<p>BVM & Associates is an audit firm that employs large number of audit assistants. CA Mahesh, a partner pays extreme attention to briefing the audit assistants every day while the audit is continuing. All audit assistants are required to document their notes in the daily briefing and accordingly conduct the audit. CA Mahesh has made it very clear that any assistant who does not document the notes taken and the steps taken accordingly will be reprimanded as it will mean that the assistants are not creating their audit programmes on the job. The practice deployed by CA Mahesh can be termed as?</p> <p>a) Unacceptable as CA Mahesh being the auditor should be providing the audit programme and he cannot expect the team to take daily notes instead of performing the audit.</p> <p>b) Appropriate and in line with SA 230 as the audit programme must be prepared on the basis of documentation of auditor's briefing notes.</p> <p>c) Acceptable but incomplete as CA Mahesh has not given any audit programme to the audit assistants to follow.</p> <p>d) Inappropriate as CA Mahesh should not only provide the audit programme but also make sure that audit programme is formally approved by all partners of the firm.</p>
300.3	S-1
	<p>CA Sameer, after developing the audit strategy for Menka Ltd., develops an audit plan but finds a need to revise the materiality levels set earlier and therefore a deviation from the already set audit strategy is felt necessary. In this case, he should</p> <p>a) Continue with the Audit Plan without considering the Audit Strategy</p> <p>b) Drop the audit and withdraw from the engagement</p> <p>c) First Modify the audit strategy and thereafter prepare the audit plan according to the modified strategy.</p>

d) Devise a new audit plan and then, change the strategy as per the Revised Plan.

300.4

SM-22

AK & Co, a firm of Chartered Accountants, have been operating for the last 6 years. Due to the quality of service offered by the firm, it has made its name and is quite renowned especially in Southern India where its head office is located. The firm has a staff size of 240 including graduates, Chartered Accountants, Management Consultants, Company Secretaries and lawyers. The firm has 3 branches other than head office at Bangalore, Chennai and Pune.

The firm has got many clients for statutory audit over the period and ensures that to maintain the quality of work, proper planning is done by each team before starting any engagement.

One of the engagement team, picked up for statutory audit of Sun Private Ltd, was involved in the process of planning of audit for the financial year ended 31 March, 2021.

The audit for the financial year ended 31 March, 2020 was conducted by a different engagement team. However, the engagement team of Sun Private Ltd for the current year has got the industry experience. The audit team is confused during the planning work and would like to have your views on following points. Please advise by answering one of them.

- a) The engagement team should consult the previous year's engagement team during the course of their planning.
- b) The engagement team should be independent and hence cannot consult the previous year's engagement team during the course of their planning.
- c) The engagement team needs to maintain confidentiality and hence cannot consult the previous year's engagement team during the course of their planning.
- d) Only the Partner who is going to sign the audit report may consult the previous year's audit team.

300.6

SM-22

Kshitij Private Ltd is a company based out of Kochi having operations primarily in Europe. Because of the nature of the operations of the company, it is required to prepare its financial statements as per International Standards for reporting to the local regulatory authorities over there. Since the business is based in Europe, the audit team is also required to visit the locations wherever the company has offices and is accordingly required to perform certain audit procedures over there.

During the audit of this company for the financial year ended 31 March, 2021, the auditors, who had planned their work appropriately and had a large team for conducting the audit, were facing lot of challenges at various stages. They were also required to revisit their materiality level during the course of the work.

However, at the time of final reviews when this was discussed with the Audit Partner (Audit In charge), he was not convinced with the approach of the audit team wherein they reassessed their plans continuously resulting in waste of time. In this situation, please advise which one of the following would be correct.

- a) Audit Partner being the senior most team member is right and same thing should be considered by audit team by documenting it in the audit file.
- b) Audit Partner's view is not correct as the audit team did the right thing.
- c) Audit Partner was correct, however, during the course of an audit which required visits at various locations it was mandatory.
- d) Audit Partner's view is not correct because the materiality was revised by the audit team which is a big thing and same should have been considered by the audit partner.

300.8	SM-22
	<p>RJ Private Limited having its office at Bangalore and operations spread across Southern India, had a discussion with its statutory auditors regarding the audit plan and the timelines.</p> <p>In the past years , there have been significant delays in completion of audit work and the management wanted that for the current year, audit should get completed on time. For doing this, the audit team suggested that the information for the purpose of audit should be ready on time and only then the timelines as agreed can be achieved.</p> <p>On the basis of the discussions with the client & the auditors and internal discussions amongst the audit team members, a detailed audit programme was prepared by the audit team for the current year's audit. But the audit team discussed that they will not document this audit programme till the completion of the audit work because at various stages, the work may require changes. If the audit team documents the audit programme then it would create problems later on at the time of assembly of the audit file wherein the audit team would have to show the changes made by them in the audit programme during the course of the audit.</p> <p>You are required to share your views in respect of this understanding and approach of the auditor.</p> <p>a) The decision of audit team regarding not documenting the audit programme is very good as this would avoid unnecessary problems of documentation of changes made in the audit programme at the time of assembly of file.</p> <p>b) Instead of considering the audit programme, the audit team could have prepared a checklist. In case of a checklist, such problem will not arise. Because in case of a checklist if any changes are made then the final checklist can be kept in the file along with old working checklist used during the audit.</p> <p>c) The approach of the audit team not to document audit programme is not correct. The audit team needs to document it properly at the time of planning stage itself and any changes made after that should also be documented with explanations.</p> <p>d) The decision of audit team not to document the audit programme is not correct. Their concern that the changes may arise in the audit programme is valid, however, to take care of that the audit team can take approval from the ICAI later on when those changes will be made. The audit team will have to document the changes and the approval note of the ICAI.</p>
300.9	S-1
	<p>Which of the following information should a successor auditor obtain during the inquiry of the predecessor auditor before accepting engagement?</p> <p>(i). Information about integrity of management (ii). Disagreement with management concerning auditing procedures. (iii). Review of internal control system. (iv). Organisation structure</p> <p>a) (i) and (ii) b) (ii) and (iii) c) (i) , (ii) and (iii) d) (i) and (iii)</p>

AUDITING STANDARDS, STATEMENTS AND GUIDANCE NOTES
PART 2--SA 540

540.1	M22R
<p>Match the following terms to their definitions:</p> <p>(i) Accounting Estimates 1 The susceptibility of an accounting estimate and related disclosures to an inherent lack of precision in its measurement.</p> <p>(ii) Estimation uncertainty 2 A lack of neutrality by management in the preparation and presentation of information.</p> <p>(iii) Management bias 3 An approximation of a monetary amount in the absence of a precise means of measurement.</p> <p>(iv) Measurement objective for fair value Accounting Estimates 4 To forecast the outcome of one or more transactions, events or conditions.</p>	
<p>a) (i)-3, (ii)-1, (iii) - 2, (iv)- 4.</p> <p>b) (i)-2, (ii)-1, (iii) - 1, (iv)- 4.</p> <p>c) (i)-1, (ii)-3, (iii) - 2, (iv)- 4.</p> <p>d) (i)-4, (ii)-1, (iii) - 2, (iv)- 1.</p>	

PART 3--SA 600

600.1	S-2
<p>PQR Ltd has three subsidiaries, two associates and five joint ventures. The standalone and consolidated financial statements of PQR Limited are audited by M/s Jain & Co LLP (Group auditors) for statutory reporting in India. The standalone financial statements of other group companies of PQR Ltd are audited by some other audit firms (component auditors). For the purpose of consolidation, the instructions sent by M/s Jain & Co LLP to component auditor's state that the principal auditors would be working on the principle of division of responsibility. The instructions further state that the Group auditor may review selected working papers of the component auditors covering identified areas of emphasis, if required. Considering the local regulatory requirements, the component auditors do not agree to get their working papers reviewed from the Group auditors. Please choose the course of action for the Group auditors in the given case.</p>	
<p>a) As per the Standards of Auditing in India, "When the principal auditor has to base his opinion on the financial information of the entity as a whole relying upon the statements and reports of the other auditors, his report would be stating the division of responsibility for the financial information of the entity by indicating the extent to which the financial information of components audited/reviewed by the component auditors have been included in the financial information of the entity." The Group auditor is not required to audit the financial statements of the components.</p> <p>b) For the purpose of consolidation, the Group auditor would have to issue his opinion on the consolidated financial statements which would comprise the financial statements of the components and hence the Group auditor is required to audit the financial statements of the components.</p> <p>c) For the purpose of consolidation, the Group auditor would have to issue his opinion on the consolidated financial statements which would comprise the financial statements of the components. Hence the Group auditor may either audit the financial statements of the components or review the work of the component auditors.</p> <p>d) For the purpose of consolidation, the Group auditor would have to issue his opinion on the consolidated financial statements which would comprise the financial statements of the components. Hence the Group auditor would be required to review the work of the component auditors. If the component auditors do not provide access to their working papers to the Group auditors, the Group auditors may qualify his auditors report.</p>	
600.2	N20M
<p>"CA Ajay was appointed as the statutory auditor of TUV Ltd. at Delhi. TUV Ltd has a branch office at Pune. A branch auditor, CA Suresh, was appointed to conduct the audit of the Pune branch of TUV Ltd. CA Ajay provided CA Suresh with a questionnaire regarding the details of the branch office of certain specific accounts and balances to be filled in by CA Suresh in which indication of material misstatements are involved. However, CA Suresh denied to fill such questionnaire as he explained that CA Ajay, as the principal auditor has no such right. Which is the relevant SA and which of the following course of action is correct in this regard?</p>	
<p>a) SA 600 is the relevant SA; CA Ajay is correct in asking for information from CA Suresh through a questionnaire.</p> <p>b) SA 610 is the relevant SA; CA Suresh is correct in denying filling such questionnaire as a principal auditor can refer to branch auditor's report or other branch records but cannot ask the branch auditor to provide any specific information by filling a questionnaire.</p> <p>c) SA 600 is the relevant SA; CA Suresh is correct in denying filling such questionnaire as CA Ajay instead of asking CA Suresh to send the filled-up questionnaire, should himself verify the specific branch details as indication of material misstatement is there.</p> <p>d) SA 610 is the relevant SA; CA Ajay should seek management's permission before asking the branch auditor for any information."</p>	

600.3	SM-22
Entity P, is audited by a different auditor than the parent entity Q. The principle auditor i.e. the auditor of entity Q, decides to use the work of auditor of component i.e. entity P, in relation to audit of consolidated financial statements. In doing so, he should comply with requirements of:	
(a) SA 600 "Using the work of Another Auditor". (b) SA 299 "Joint Audit of Financial statements". (c) SA 720 "The Auditor's Responsibilities Relating to Other Information". (d) SRS 4410 "Compilation Engagements".	

PART 4--SA 610

610.1	N20M/SM-22
	<p>"M/s Viaan Viraj & associates are the statutory auditors of ABC Ltd. for the FY 2020-21. The company has a strong internal control team. During the course of audit, CA Viaan, the engagement partner found that the company has factories all across the country. In order to verify the wages expenses at all the factories, CA Viaan decided to use the Internal Audit Team of the company. He accordingly discussed the same with Mr. Gaurank, the Chief Internal Auditor of ABC Ltd. to provide him a report on the wage's expenses across all factories. Which of the following requirements as per SA 610 are required to be fulfilled by CA Viaan prior to using the direct assistance of the Internal Audit Team of the company?"</p>
	<p>a) CA Viaan should obtain written agreement from the management of ABC Ltd. that the internal audit team will be allowed to follow the statutory auditors' instructions.</p> <p>b) CA Viaan should obtain written agreement from Mr. Gaurank that his team will keep the matters confidential.</p> <p>c) Both a & b</p> <p>d) CA Viaan can use the direct assistance of the Internal Audit Team after discussing the same with the management. No prior written agreement is required."</p>
610.2	N20M/SM-22
	<p>D.M. Ltd. appointed M/s K.K. & Co., Chartered Accountants as Statutory Auditors. The Statutory Auditors found the internal audit function reliable and effective. The Statutory Auditor assigned the task of assessing the inventory levels of a few branches where the Statutory Auditor believed that there might be some risk of material misstatement to one of the internal auditor Mr. Ryan. Since the Internal Auditor had recently done such assessment as a part of their internal audit program, therefore, the Statutory Auditor believed that they could rely on the former's report. Besides this, because of the paucity of time the Statutory Auditors also requested Mr. Ryan to help them in some paperwork including audit documentation. Before the audit was concluded, Mr. Ryan got promoted and shifted to another city. During the audit discussion stage, the lead Statutory Auditor found out that the documentation delegated to Mr. Ryan was not complete. Accordingly, Statutory Auditor further checked the inventory work delegated to the Internal Auditor, however, it was found to be satisfactory. In view of the above case scenario, state which of the following statement(s) hold true:</p>
	<p>(a) The working of Internal Audit function was reliable and satisfactory; therefore, the allocation of inventory level work was within the authority of the Statutory Auditor. This was further confirmed by the satisfactory work of Internal Auditor, as found out later.</p> <p>(b) The documentation would be considered complete as far as the Statutory Auditor's responsibility is concerned as the missing documentation was because of the oversight of the Internal Auditor.</p> <p>(c) Since the Internal Audit had conducted the similar inventory level checking activity recently, therefore, because of familiarity with the audit the Statutory Auditor was right in delegating the same to the Internal Auditor.</p> <p>(d) The Statutory Auditors should not have delegated the inventory level checking to the Internal Auditor, as the risk assessed was material. Further, the audit documents are Statutory Auditor's property and responsibility. Also, the Statutory Auditor should maintain confidentiality during all the stages of the audit. Therefore, it was wrong on the part of the Statutory Auditor to handover the task of audit documentation to the Internal Auditor.</p>

AUDITING STANDARDS, STATEMENTS AND GUIDANCE NOTES

Part 5--SA 620

620.1	S-2
	<p>X Ltd is in the business of trading of industrial equipment. The Company's operations are based out of India and Germany. For the purpose of hedge, the company has taken forward contracts. The Company is Phase 1 company as per the requirements of Ind AS and hence forward contracts have been fair valued for the purpose of preparation of financial statements. The Company also got its property, plant and equipment fair valued. The Company has shown its fair valuation reports in respect of above items to the auditors. What should be the responsibility of the auditors in this case?</p> <p>a) The auditor may refer to the work of the valuer in his report containing an unmodified opinion and accordingly reduce the his responsibility for the audit opinion.</p> <p>b) The auditor may refer to the work of the valuer in his report for forward contracts but not for property, plant and equipment, containing an unmodified opinion and accordingly reduce his responsibility for the audit opinion.</p> <p>c) The auditor may refer to the work of the valuer in his report for property, plant and equipment but not for forward contracts, containing an unmodified opinion and accordingly reduce his responsibility for the audit opinion.</p> <p>d) The auditor may involve his own expert for the purpose of audit of fair valuation of forward contracts and property, plant and equipment. But in any case, he cannot reduce his responsibility for the audit opinion by referring to the work of the valuer in his report.</p>
620.2	N19M
	<p>An auditor's expert may be either an auditor's internal or an external expert. Which of the following can not be an auditor's internal expert?</p> <p>a) Partner of the Auditor's Firm</p> <p>b) Temporary Staff of the Auditor's Firm</p> <p>c) Permanent Staff of Auditor's Network Firm</p> <p>d) A Prospective CA, soon to join the Auditor's Firm as a Partner.</p>
620.3	M20M
	<p>Which among the following is not a factor for determining the necessity to use an auditor's expert to assist in obtaining sufficient appropriate audit evidence?</p> <p>a) The use of a management's expert by the management in preparing the financial statements.</p> <p>b) The presence of an internal audit function and verification of the subject matter by them.</p> <p>c) The nature and significance of matter including its complexity.</p> <p>d) The risk of material misstatement in the matter.</p>

Part 6—Other Concepts

CH2OC.1	M20M
	<p data-bbox="261 360 1423 524">Gamma Private Ltd. duly appoints CA Palak as the tax auditors of their Company and the Appointed Tax-auditor chalks out a detailed Audit Programme to be assigned to her audit engagement team to carry out the tax audit efficiently & effectively. Which of the following situations wouldn't warrant an alteration in the Audit Programme during the course of Audit by the Tax Auditor of Gamma Private Limited during the next Financial Year ?</p> <ul data-bbox="300 539 1423 736" style="list-style-type: none">a) Significant changes in Procedures and Personnel of the Company subsequent to audit Procedures.b) A Substantial increase in the volume of turnover as against the anticipated results of the Company.c) An extraordinary increase in the amount of Book Debts as compared to that in the First Year.d) A New Contract received by Gamma Ltd. form a Foreign Client during the course of the audit

Part 1 SA 300

300.1	c
300.2	c
300.3	c
300.4	a
300.6	b
300.8	c
300.9	a

Part 2 SA 540

540.1	a
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Part 3 SA 600

600.1	a
600.2	a
600.3	a

Part 4 SA 610

610.1	c
610.2	d

Part 5 SA 620

620.1	d
620.2	d
620.3	b

**Part 6 Other
Concept**

CH2OC.1	d
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Ch.3 Risk Assessment and Internal Control

PART 1 - SA 315

315.1	S-1
	<p>Control activities, whether within IT or manual systems, have various objectives and are applied at various organisational and functional levels. Which of the following is an example of control activities?</p> <p>a) Authorization. b) Performance reviews. c) Information processing. d) All of the above</p>
315.3	S-1
	<p>For a given level of audit risk, the acceptable level of detection risk bears _____ relationship to the assessed risks of material misstatement at the assertion level.</p> <p>a) direct. b) Inverse c) Either (a) or (b) d) none of the above</p>
315.4	S-1
	<p>PR Co. designs and manufactures specialised furniture for offices in and around the city of Mumbai. The revenue has been gradually increasing over the last few years. The main concern for PR Co is finding creditworthy customers who will make the payment on due dates. You are assigned as the audit team member to test the controls in sales and purchase system of the entity. The year end of the entity is 31 March 2018. One of the control objectives of the sales system of PR Co is to ensure that goods and services are sold to creditworthy customers. Which of the following control activities would assist the entity in achieving this objective?</p> <p>a) All sales orders above Rs.10 lakh is based on authorized price lists. b) Credit limits for all the customers are checked before sales orders are accepted. c) Overdue debts are chased each month by the credit controller. d) The aged-debt listing is reviewed by the finance director of PR Co on a monthly basis.</p>
315.5	SM-22
	<p>Raj Private Limited is engaged in the business of retail and has its retail outlets concentrated towards Northern India. Currently, the company has 59 outlets and the plan of the management is to take this to at least 100 over the next 2 years. The company is audited by Raj & Associates, a firm of Chartered Accountants, who have been operating for over 20 years, however, they don't have much experience in the retail sector. Because of this fact the audit team decided to plan efficiently for the audit of the financial statements of the company for the year ended 31 March 2021, being their first year of audit.</p> <p>During the course of risk assessment by the auditors, it was discussed that the company is operating in an industry where the operations are not very complicated and mostly the processes are known to all. Considering the same they decided that assessment of inherent risk should not be done for this company as that would be inefficient. However, the auditors will take due care of the control risks. The same assessment was deliberated upon and after lot of discussions it was finalized like this. In the given situation, please advise which one of the following would be correct.</p> <p>a) The assessment of audit team is correct. b) The assessment of audit team is wrong considering the fact that this is a private company wherein such assessment is not possible. c) The assessment of audit team is wrong for this company.</p>

	d) The assessment of audit team is correct considering the fact that this has been thoroughly discussed.
315.6	S-3
	<p>The management of ABC Recruitment Ltd has approached RK & Associates to conduct the audit for the year ended 31 March 2018. Being a recruitment company, it has vital personal information of prospective candidates who are looking for job opportunities through this company. Also, ABC keeps information about the various job offers from different companies. You are currently looking at the controls present to protect the company's vital information. Which of the following is the best program for the protection of a company's vital information resources from computer viruses?</p> <p>a) You verify the policy document which has stringent corporate hiring policies for staff working with computerized functions.</p> <p>b) You observe that there is an existence of a software program for virus prevention.</p> <p>c) You also verify that there are prudent management policies and procedures instituted in conjunction with technological safeguards.</p> <p>d) You identify that there are physical protection devices in use for hardware, software, and library facilities.</p>
315.7	S-3
	<p>This year you were included in the audit team with portfolio of few not-for-profits organisations. MJ Hospital was one such non-for-profit organisation with the year end 31 March 2018. MJ Hospital was government funded organisation and was obliged to deliver value for money. As a result, you were aware that many of the internal controls in MJ Hospital will be focused on providing the best service possible at the lowest price. Which of the following controls may not be implemented by MJ Hospital?</p> <p>a) Timecard clocking in to ensure that the employees including resident doctors are only paid for those hours worked.</p> <p>b) Strict controls over the authorization of overtime to ensure it is only worked where really needed.</p> <p>c) There are any restrictions imposed by the objectives and powers given by hospital's governing documents.</p> <p>d) A recognized plan of the organization's structure clearly showing the areas of responsibility and lines of authority and reporting.</p>
315.8	S-1
	<p>Which of the following best suits the description – "The susceptibility of an assertion that could be material, either individually or in aggregate, before consideration of any related Internal Controls."</p> <p>a) Inherent Risk</p> <p>b) Detection Risk</p> <p>c) Control Risk</p> <p>d) None of the above.</p>
315.10	S-1/SM-22
	<p>RIM Private Ltd is engaged in the business of manufacturing of water bottles and is experiencing significant increase in turnover year on year. It is a subsidiary of RIM GmbH, based out of Germany. During the financial year ended 31 March 2021, the company carried out a detailed physical verification of its inventory and property, plant and equipment. During the year, various other activities were carried out to increase efficiency in operations and reductions of costs. The statutory auditors of the company started their audit work from April 2021 and requested for a documentation on changes in processes and activities during the year as well as any resultant impact of the same on management controls.</p>

	<p>The management of the company told the auditors that all such documentation is maintained by the parent company as this is a closely held private company and even though internal financial controls reporting is applicable on this company, the parent company is taking due care of each and every process. The auditors did not agree with the views of the management. Please advise both the management and the auditors.</p>	
	<ul style="list-style-type: none"> a) The auditors should look for documentation as per Sarbanes Oxley in this case. b) The auditors are correct in this case and the management should provide the required documentation. c) The auditors are correct in this case and the management should provide the required documentation. However, in case the parent company is covered by Sarbanes Oxley then it can be ignored by the auditors. d) The management is correct. 	
315.11		S-1/SM-22
	<p>SK Private Limited is a medium-sized company having operations in Jharkhand. The company manufactures some parts and sells that to various dealers on ex-works basis. The financial statements of the company are prepared as per Ind AS and internal financial controls report is also applicable on the same. During the course of audit of the financial statements for the year ended 31 March 2021, the management of the company had a detailed discussion with the auditors for audit planning. Further it was also decided that any observations of the auditors should also be discussed with the management before conclusion by the audit team which was not done in the past years. Considering this, the auditors started the risk assessment and requested the management to share their documentation for the same on which the management said that they don't have any risks and if the auditors come across any such thing they can discuss that with the management. But the auditors were not convinced with the view of the management and the same thing has happened in the past years as well. You are required to provide your inputs to resolve this matter.</p>	
	<ul style="list-style-type: none"> a) The requirement of the audit team is not correct. b) The view of the management is correct because of the applicability of Ind AS. c) The view of the management is correct because of the applicability of internal financial controls reporting. d) The view of the management is not correct. 	
315.12		S-1/SM-22
	<p>Kshitij Private Ltd is a company based out of Noida having operations in India and Dubai. The company's operations in Dubai have increase over the last 2 years and the management is earning very good profits. Because of the profits, the management also planned that they should now focus on strengthening of internal controls of the company and for that purpose they have discussed with the statutory auditors to carry out the audit for the financial year ended 31 March 2021 very rigorously. The report on internal financial controls is also applicable to the company and hence the auditors during the course of their work asked for Risk-control matrices from the company. During the year ended 31 March 2020, Risk-control matrix was not available with the company and was prepared in a draft manner and the same was shared with the audit team during that year and the auditors completed their work on the basis of that. However, for the year ended 31 March 2021, the auditors would like to have robust documentation and are not ready to accept the same Risk-control matrices. In the given situation, please suggest what should be the course of action.</p>	
	<ul style="list-style-type: none"> a) The request of audit team is correct, and the management should provide that. b) The requirement of audit team is not justified considering the fact that last year same documentation was used by them. c) The requirement of audit team is not justified considering the fact that it's a private company and auditor anyways is required to perform rigorous audit procedures. d) In case of a private company on which internal financial controls report is required, the auditor is not allowed to take any Risk control matrix from the management. Seems to be an ethical issue. 	

315.13	S-1
	<p>Teamsg International Co is a manufacturer of electrical equipment. It has factories across the country and its customer base includes retailers as well as individuals, to whom direct sales are made through their website.</p> <p>The company's year-end is 31 March 2018. You are an audit supervisor of Suraj & Co and are currently reviewing documentation of Teamsg's internal control in preparation for the interim audit. In the past six months Teamsg has changed part of its manufacturing process and as a result some new equipment has been purchased, however, there are considerable levels of plant and equipment which are now surplus to requirement. Purchase requisitions for all new equipment have been authorized by production supervisors and little has been done to reduce the surplus of old equipment. Which of the following control can be recommended to address the internal control deficiency in the respect of the acquisition of new equipment and treatment of the old equipment?</p> <ol style="list-style-type: none"> Regular review of the data on the unused equipment on the master file by a responsible official and the review to be evidenced. Supplier statement reconciliations should be performed monthly for all suppliers and these should be reviewed by a responsible official. Capital expenditure authorization levels to be established. Production supervisors should only be able to authorize low value items, any high value items should be authorized by the board. Observe the review process by senior factory personnel, identifying the treatment of any old equipment.
315.14	S-1
	<p>You are an audit supervisor of Swaminathan & Associates and are currently planning the audit of your client, Zonal Co which manufactures elevators. Its year end is 31 March 2018 and the forecast profit before tax is Rs25.26 Lakhs.</p> <p>At the beginning of the year, Zonal purchased a patent for Rs. 5.3 lakhs which gives them the exclusive right to manufacture specialised elevator equipment for five years. In order to finance this purchase, the entity borrowed Rs. 4.5 lakhs from the bank which is repayable over five years. Which of the following is a response to the audit risk identified by you in planning the audit for the reporting year?</p> <ol style="list-style-type: none"> The audit team need to agree the purchase price to supporting documentation and to confirm the useful life is five years. Recalculate the amortization charge to ensure the accuracy of the charge and that the intangible is correctly valued at the year end. The company has borrowed Rs.4.5 lakhs from the bank via a five-year loan. This loan needs to be correctly split between current and non-current liabilities in order to ensure correct disclosure. In accordance with Ind AS 38 Intangible Assets, the patent should be included as an intangible asset and amortized over its five-year life. Also, as the level of debt has increased, there should be additional finance costs. There is a risk that this has been omitted from the statement of profit or loss leading to understated finance costs and overstated profit.
315.15	SM-22
	<p>The acceptable detection risk needs to be _____ in order to reduce the audit risk to _____ in the area of inventories management and handling.</p> <ol style="list-style-type: none"> low in order to reduce audit risk to an acceptably high level. high in order to reduce audit risk to an acceptably high level. low in order to reduce audit risk to an acceptably low level. high in order to reduce audit risk to an acceptably low level.

315.16	SM-22
	<p>The management of Magoo Ltd. has developed a strong internal control in its accounting system in such a way that the work of one person is reviewed by another. Since no individual employee is allowed to handle a task alone from the beginning to the end, the chances of early detection of frauds and errors are high. CA. Olive has been appointed as an auditor of the company for current Financial Year 2020-21. Before starting the audit, she wants to evaluate the internal control system of Magoo Ltd. To facilitate the accumulation of the information necessary for the proper review and evaluation of internal controls, CA. Olive decided to use internal control questionnaire to know and assimilate the system and evaluate the same. Which of the following questions need not be framed under internal control questionnaire relating to purchases?</p>
	<p>(a) Are authorized signatories for purchases limited to elected officials? (b) Are payments approved only on original invoices? (c) Does authorized officials thoroughly review the documents before signing cheques? (d) Are monthly bank reconciliations implemented for each and every bank accounts of the company?</p>
315.17	SM-22
	<p>Adequate design and effective implementation of Internal Controls may not lead to the identification of:</p>
	<p>(a) Frauds and errors. (b) Design and Implementation gaps in Processes. (c) Abuse by Process Owners. (d) Segregation of Duties.</p>

PART 2 - SA 265

265.2	(M20M)
	<p>"A significant deficiency exists in the process of flow of approval of travel re-imburements of the officials. This was communicated in the previous year to those charged with Governance and no remedial action was taken on the same so far. The auditors are of the opinion that it need not be communicated again. Is the opinion of the auditors on not to communicate the deficiency in internal control reported in the previous year correct?"</p> <p>a) Yes, the auditor is not required to communicate the same again as it is the duty of the management and those charged with governance to maintain the internal control system.</p> <p>b) No, the current year's communication may repeat the description from previous communication or simply reference the previous communication.</p> <p>c) Yes, the auditor is not required to communicate the same again as written representation is being obtained from management and those charged with governance that they are responsible for maintaining internal control.</p> <p>d) No, it needs to be communicated again but an oral reminder to those charged with governance on the matter may suffice. "</p>
265.3	N21M/SM22
	<p>Factors that the auditor may consider in determining the appropriate level of detail for communication of significant deficiencies under SA 265 depends upon:</p> <p>I. Nature, size and complexity of the entity</p> <p>II. Nature of the significant deficiencies identified</p> <p>III. Estimated time required by management to resolve the deficiency</p> <p>IV. Fees charged from the client</p> <p>a) I and II.</p> <p>b) I, II and III.</p> <p>c) III and IV.</p> <p>d) Only II.</p>

**AUDITING
STANDARD
AND
GUIDANCE
NOTES - AN
OVERVIEW**

PART 1- SA 300

Series

315.1	d
315.3	b
315.4	c
315.5	c
315.6	c
315.7	c
315.8	a
315.10	b
315.11	d
315.12	a
315.13	d
315.14	a
315.15	c
315.16	d
315.17	c

PART 2- SA 265

Series

265.2	b
265.3	a

CHAPTER 4 - SPECIAL ASPECTS OF AUDITING IN AN AUTOMATED ENVIRONMENT (AAE)

AAE.1	SM-22
<p>AJ Private Ltd is in the business of construction and infrastructure having an annual turnover of INR 1,100 crores. The operations of the company are run efficiently driven by the well laid out policies and procedures. The processes of the company are very strong and are well documented and properly communicated to its employees, as required.</p> <p>The management had also done a detailed risk assessment in the earlier years and currently the risk management system of the company is considered to be very effective. The internal controls include both automated and manual.</p> <p>During the course of the audit of the financial statements of the company for the financial year ended 31 March 2021, the statutory auditors did their risk assessment and also reviewed the general IT controls which were found to be effective. Considering the same, one of the senior audit team members asked the team to start performing the substantive audit procedures taking the approach that controls are effective.</p> <p>However, the audit team did not find this approach correct and discussed that they should also check the effectiveness of other manual and automated controls by testing them and then move on to substantive testing. The audit team recently had a training on the internal controls and hence their understanding was different from the audit senior. This led to a conflicting situation between the audit senior and remaining audit team.</p> <p>In the given situation, please advise which of the following would be correct.</p>	<p>a) The audit senior is correct because general IT controls were found to be effective and hence no further work may be required on controls.</p> <p>b) The view of the audit team looks fine because without testing of internal controls covering all types of controls (manual and automated), those controls cannot be said to be operating effectively.</p> <p>c) The audit senior seems reasonable in his approach because general IT controls were found to be effective. However, it would be more appropriate to also test application controls before concluding on the effectiveness of the controls.</p> <p>d) The argument of the audit team looks better because every audit requires significant time to be spent on testing of internal controls and by only covering general IT controls, it would be difficult to justify this requirement later on in the audit file.</p>
AAE.2	SM-22
<p>AR Private Limited is a medium-sized company engaged in the business of trading of electronic equipments. The company has various warehouses where all of these equipments are kept and has an inventory levels of generally 2-3 months.</p> <p>The internal environment of the company is driven by various processes some of them are manual and some automated. Accordingly, the management has also set up various controls both manual and automated and is comfortable with their design and operating effectiveness.</p> <p>During the course of audit of the financial statements for the year ended 31 March 2021, the auditors raised various queries regarding various processes where the controls were operating effectively. This was because of the fact that auditor was considering either only manual controls or only automated controls in a process.</p> <p>As per the auditor, the management should have adopted the same approach and hence he would like to increase the substantive audit procedures because they had a view that as per the current approach of the management, controls should be considered as ineffective irrespective of the fact that the testing which the audit team had performed resulted in the controls being effective.</p>	

	<p>Currently, the concern was regarding the approach on which management was also stuck on their point. You are required to provide your inputs to resolve this matter.</p>
	<ul style="list-style-type: none"> a) The approach of the management doesn't seem to be correct because of the nature of the operations of the company. The current approach which the management has followed can be accepted only in case of manufacturing industry. b) The management should have discussed their approach with the auditors before appointing them. The Companies Act 2013 provide specific guidance on these matters wherein the management of the company can follow such approach by taking preapproval from their auditors and in such a case, the report of the auditors is always clean. c) The approach of the management is completely fine. The auditors need to correct their understanding of the internal controls and the application of internal controls. A process can is not limited to have either only manual control or automated control. d) Considering the size of the company, such matters should be ignored by the auditors. Even if the approach of the management is not correct, it would not have any impact on the work of the auditors because all such matters get resolved at the time when auditors perform final analytical procedures. (d) The audit team could have planned their work differently. They should involve IT experts who would have knowledge of the systems of the company and hence lot of time can be saved. Further in case of such type of industry, involvement of IT experts is anyways required mandatorily as per the legal requirements.
AAE.3	SM-22
	<p>KJ Private Ltd is engaged in the business of e-commerce wherein most of the operations are automated. The company has SAP at its ERP package and is planning to upgrade the SAP version.</p> <p>Currently, the version of SAP being used is fine, but the higher version would lead to increased efficiencies and hence the company is considering this plan which will also involve a huge outlay.</p> <p>KPP & Associates were appointed as the statutory auditors of this company for the year ended 31 March 2021 and the statutory audit firm has been working in this industry for long but most of the work which the firm did was more of risk advisory or internal audit.</p> <p>For the first time, this audit will be conducted and that's why the audit team started obtaining understanding of the operations of the company which included understanding of the SAP system of the company. However, the management of the company was not comfortable with this approach of the audit team particularly because audit team was spending good time on understanding of the IT systems of the company.</p> <p>The management suggested that the auditors should limit their understanding and should perform audit procedures rather than getting into business/ operations. But the auditors have a different view on this matter and because of which work has got stuck. In the given situation, please suggest what should be the course of action.</p>
	<ul style="list-style-type: none"> a) The approach of audit team to obtain detailed understanding of the company before starting with the audit procedures is absolutely fine. If the auditors don't understand the systems properly the audit procedures may not be appropriate. b) The management's concern regarding the approach of the auditors seems reasonable. The auditors are spending time on understanding of the systems/ business and not performing their audit procedures. c) This being a private company and that too into the business of e-commerce, the auditors should have knowledge about the operations of the company through their understanding of the industry and hence should not get into this process of obtaining detailed understanding at the client place. d) The audit team could have planned their work differently. They should involve IT experts who would have knowledge of the systems of the company and hence lot of time can be saved. Further in case of such type of industry, involvement of IT experts is anyways required mandatorily as per the legal requirements.

AAE.4	SM-22
	<p>KPL Private Limited is a large software company based out of Hyderabad. The annual turnover of the company is INR 2,100 crores. The company sells software and is also involved in the implementation of those software's for its clients.</p> <p>The major chunk of the revenue though comes from sale of software only. The company works on a completely paper-less office and accordingly, most of the documents are available in soft copy. During the financial year ended 31 March 2021, the auditors during the course of their audit obtained various audit evidence some of which were in hard copy but mostly in soft copy.</p> <p>On conclusion of the audit, the auditors are in a dilemma whether to maintain their documentation entirely in hard copy or soft copy or can it be mixed of both. After consultations with various persons, the auditors stood that the documentation for this company, being operated in fully automated environment should be in soft copy only. Please advise whether this understanding is correct.</p> <p>a) This is a matter of documentation of audit evidence for a client working in fully automated environment and hence it should be in soft copy only.</p> <p>b) As per the requirements of auditing standards, this documentation can be in a mix of both soft and hard copy.</p> <p>c) Since the client is operating in a fully automated environment, it would be important to check with them because all this documentation has come from the client only.</p> <p>d) As per the requirements of auditing standards, documentation is not required in case of a client working in automated environment because everything is automated and can be accessed easily at any point of time.</p>
AAE.5	SM-22
	<p>RIM Private Ltd is engaged in the business of manufacturing of cranes and other construction equipment's. The nature of the operations are such that purchases are quite significant even though the sales may or may not be very significant, in terms of number of transactions during the year.</p> <p>The company's statutory auditors have also obtained certain audit tools to help the audit team on various audit procedures to bring efficiency in various audits. During the course of the audit of the financial statements for the financial year ended 31 March 2021, the auditors used those audit tools (also known as computed assisted audit techniques) for sampling procedures and data analytics.</p> <p>The outcome of the tools resulted in some analysis and requirements which the audit team requested from the client. However, the client refused to provide any such information because as per the client all these tools were those of the auditor and any outcome of the same needs to be handled by themselves instead of asking the management.</p> <p>The auditors have suggested that such an attitude of non-cooperation would not help the either party and would defeat the objective of the audit. The management of the company is, however, ready to provide any other information to the auditors.</p> <p>In this situation, please advise both the management and the auditors.</p> <p>a) Since the management is ready to provide any other information, the auditor should obtain this information as well by not disclosing the management that it is outcome of any audit tool.</p> <p>b) The view of the management is correct because audit tools are there to support the auditors and not to lead to increased work for the management.</p> <p>c) The auditors are correct because by using audit tools they are performing their audit procedures.</p> <p>d) The auditors should ignore all these tools and plan their audit procedures accordingly.</p>

AAE.6	S-3
	<p>For the current year audit of Beta Co for the year ended 31 March 2018, your manager suggested that we could use computer-assisted audit techniques. He asked you to plan the audit work on trade receivables. The financial statements of Beta Co showed trade receivables of Rs.243 crores in the current year. Which of the following procedures could not be performed by using computer-assisted audit techniques?</p>
	<ul style="list-style-type: none"> a) Selection of a sample of receivables for confirmation b) Calculation of receivables days. c) Production of receivables' confirmation letters d) Evaluation of the adequacy of the allowance for irrecoverable receivables
AAE.7	M19R/M23M
	<p>Which of the following is an example of Direct Entity level ?</p>
	<ul style="list-style-type: none"> a) Ethics policy b) Human resource policy c) Business performance reviews d) Job roles & responsibilities of employees
AAE.8	SM-22/N22M
	<p>XYZ Private Limited is engaged in trading of parts of machineries used in boiler plants. Company has seen growth of 60% in the sales and management expecting similar growth in next 3 financial years and is planning to onboard new dealers in order to achieve management goal. Purchase department also expect to develop new suppliers in order to meet customer demands. Internal auditor of the company has identified frequent changes in the bank account and other master details of suppliers. At this expansion planning phase, company has no defined control to provide assurance on said supplier master changes. Management agreed to develop the process of monthly detailed review of supplier master changes done in supplier master by Finance assistant in order to ensure authorized changes in supplier master. One of the members from the Management would like to know that above controls falls under which category:</p>
	<ul style="list-style-type: none"> a) Automated control. b) Preventive control. c) Detective control. d) Compensating control
AAE.9	M21M/SM-22/N22M
	<p>ABC Private Limited uses in-house developed application system for Accounting. The auditor observed that user ID and password is mandatory to access the application system and felt that this is a good control. What type of control is this?</p>
	<ul style="list-style-type: none"> a) IT General Control. b) Application Control. c) Detective Control. d) Preventive Control.
AAE.10	N21M/SM-22
	<p>KPC Limited is a garment manufacturing company having Head Office in Mumbai, 4 factories, 10 marketing offices across the country. The company uses SAP ERP for almost all its business processes except Payroll which is being outsourced to an Agency in Bangalore. Once payroll is processed, data is sent to the HR department at HO. HR department shares such details with Finance Department at HO for making the payment. Journal entries are recorded in SAP. Employees complained about incorrect Income Tax calculation and KPC Limited appointed a CA</p>

	<p>firm to review the payroll system in detail. It was observed that logic of Income Tax calculation is not as per the requirements of the Act and when the outsourced Agency confirmed that they carried out program changes recently and error may be due to such changes. The Auditor attributed the error of such incorrect software changes to:</p>
	<p>a) Loss of Application Controls. b) Loss of Overall Controls. c) Loss of IT General Controls. d) Human oversight.</p>
AAE.11	M22M
	<p>Which of the following is an example of Direct Entity level control</p>
	<p>(a) Company code of conduct and ethics policies. (b) Human resource policies. (c) Job roles & responsibilities of employees. (d) Monitoring of effectiveness of controls activities by Internal Audit function</p>

**SPECIAL
ASPECTS OF
AUDITING IN
AN
AUTOMATED
ENVIRONMENT**

AAE.1	b
AAE.2	c
AAE.3	a
AAE.4	b
AAE.5	c
AAE.6	d
AAE.7	c
AAE.8	c
AAE.9	d
AAE.10	c
AAE.11	d

Ch. 5 COMPANY AUDIT

Part 1 - Company Audit

1.CA I	N19R/M23M
<p>ABC Pvt Ltd had turnover of ` 39 crores as of 31 March 2018. The Company had taken a loan of ` 39 crores from various banks and financial institutions during the year ended 31 March 2018. These loans were paid by the Company before 31 March 2018. The Company is of the view that the auditors' reporting on adequacy and operating effectiveness of internal financial controls (IFC) under Section 143(3)(i) of the Companies Act, 2013 would not be required. The auditors of the Company have a different view. What should be correct option?</p>	
<p>a) The turnover of ABC Pvt Ltd is below required threshold and hence IFC will not be applicable.</p> <p>b) The turnover of ABC Pvt Ltd is below required threshold and loan amount was fully paid before year end i.e., 31 March 2018. Hence IFC will not be applicable.</p> <p>c) The turnover of ABC Pvt Ltd is below required threshold but loan amount was above required threshold. Irrespective of the fact that loan was outstanding as at 31 March 2018 or not, IFC would be applicable.</p> <p>d) In the given case because of the repayment of the loan before year end i.e., 31 March 2018, applicability of IFC becomes optional.</p>	
2.CA I	S-2
<p>Bhishm Limited decided to appoint Mr. Rajvir, chartered accountants as the branch auditor for the audit of its Lucknow branch accounts for the year 2017-18. The decision to appoint branch auditor was taken by way of Board Resolution in the meeting of Board of Directors of the company, held in April 2017, subject to shareholders' approval in AGM of the company scheduled to be held in June 2017. Meanwhile, the Principal Auditor of the company raised an objection that the branch auditor cannot be appointed without his consent. Whether the objection raised by company auditor is valid?</p>	
<p>a) The objection raised by company auditor is not valid as per section 143(8) of the companies Act, 2013 and the Board has authority to appoint branch auditor but should be approved by shareholders in General Meeting.</p> <p>b) The objection raised by company auditor is valid as it is necessary to consult/obtain the consent of Principal Auditor before appointing Branch Auditor.</p> <p>c) The Board of Directors has no authority to appoint Branch Auditor, so the objection raised by Principal Auditor is valid.</p> <p>d) The objection raised by company auditor is not valid as it is compulsory to appoint branch auditor as per Sec.139 of the Companies Act, 2013.</p>	
3.CA I	SM-22
<p>CGN Ltd is a large company engaged in the business of oil exploration in India. The Tamil Nadu Government and the Central Government hold 37% and 20% respectively of the paid-up share capital of this company. The C&AG appointed the statutory auditors of this company as per requirements of the Companies Act 2013. The company had a concern regarding this appointment because company wanted to appoint another auditors as per their assessment, however, considering the legal hassles which would have got involved, the company decided to go ahead with this. The audit of the financial statement for the year ended 31 March 2021 got completed by the auditors appointed by the C&AG. Subsequent to this, the C&AG also issued an order to conduct test audit of the accounts of the company which was objected by the management of the company. The management objected saying that the complete set of financial statements have been audited by auditors appointed by the C&AG and hence this order is not acceptable because this would lead to duplication of work. Moreover, the management has also written to the C&AG that for the next financial year, the existing auditors should either resign so that the management may bring in their own auditors or the C&AG should have faith in the work of the auditors appointed by them. Please suggest how to resolve this matter.</p>	

- a) The management's stand is not correct. The C&AG may order test audit as per the requirements of the Companies Act 2013.
- b) The management's stand is not correct. The C&AG may order test audit as per the requirements of the Indian Penal Code.
- c) The management is correct and in this situation, they get the right to appoint another auditor considering the fact that the C&AG has lost faith in the work of auditors appointed by them.
- d) Such type of matters should be taken to arbitration as per the requirements of the Arbitration Act.

4.CA I	M19M/N20R
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FAC Chartered Accountants was appointed as statutory auditors by KMG Ltd. for the audit of their financial statements. During the course of audit, the auditors noticed a fraud of Rs. 120 lakhs done by an officer of the company. The officer sanctioned and made the payment to fake vendors for purchase of fixed assets; however, the assets were not entered in the Fixed Assets Register. The auditor reported the fraud in his audit report to the shareholders of the company presented in the Annual General Meeting but did not mentioned the name of the parties involved. The Board of Directors of the company asked ICAI to take necessary action against the auditor as he has not complied with his duty to report fraud as per Section 143(12) of the Companies Act, 2013. What is the duty of the auditor as per Companies Act in reporting the fraud done by officers or employees of the company?

- a) As per Companies Act, 2013, as the amount of fraud is more than 100 lacs; the auditor should have reported the matter within 2 days of his knowledge to the Board of Directors/ Audit committee of the company seeking their reply or observations within 45 days. After completion of 45 days the auditor should forward his report to the Central Government along with the reply if any received from Board/ Audit Committee.
- b) As per Companies Act, in the course of audit if the auditor has reason to believe that a fraud has been conducted by the officers or employees of the company, the auditor shall report the matter to the Central Government immediately.
- c) The auditor's duty is restricted to reporting the fraud to shareholders and he is not required to report the matter to Board of Directors/ Audit Committee/ Central Government.
- d) The auditor can submit his report on fraud to shareholders but is required to mention the name of the parties involved in fraud, as per Section 143(12) of the Companies Act, 2013.

5.CA I	SM-22
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K Pvt Ltd. has been providing marketing support services to its parent company based out of Ireland. The company's operations are not large and have remained stable over the last few years. Recently the parent company was acquired by another company and the new investor wanted to reassess whether the company in India should continue or should be shut down considering the legal compliances. It was advised to the new investor that the company should be converted into LLP. In December 2018, the new management decided that they would get the company converted into LLP and also discussed that matter with their statutory auditors. The management is expecting that the LLP conversion would get completed by February 2019 and wants that the auditors should audit the financial statements of the LLP at the year end because conversion is only an administrative process and hence it would not impact their work.

- a) The management would need to get the financial statements audited from new auditor appointed by CAG in case of LLP.
- b) The management would need to appoint new auditor and the new auditor can audit LLP at year end in one go – both for the period it was a company and then when it became LLP.
- c) The auditor of the company should audit the company before its conversion and then the new auditor for LLP would audit LLP separately.
- d) The auditor of the company should audit the company before its conversion and then the new auditor for LLP would audit LLP separately. But this is a choice available to the auditor.

6.CA I	S2
<p>M/s ABC & Co LLP has been appointed as the statutory auditors of WEF Ltd. Previous auditor of WEF Ltd was/s LMN & Co LLP. For the purpose of accepting position as the statutory auditors of WEF Ltd, M/s ABC & Co LLP has sent a written communication to M/s LMN & Co LLP to obtain no objection letter. In the given case, which one of the following options is correct?</p>	
<p>a) M/s ABC & Co LLP needs to ensure that his appointment has been made by WEF Ltd as per the provisions of the Companies Act 2013. Once that is done, ABC & Co LLP need not make any communication with LMN & Co LLP.</p> <p>b) M/s ABC & Co LLP needs to make a communication with LMN & Co LLP and obtain his no objection letter for accepting the position of statutory auditors of WEF Ltd. Once this is done, M/s ABC & Co LLP can be appointed by WEF Ltd. However, in that case it will not be mandatory to follow the provisions of the Companies Act 2013.</p> <p>c) M/s ABC & Co LLP needs to ensure that his appointment has been made by WEF Ltd as per the provisions of the Companies Act 2013. ABC & Co LLP also needs to make a communication with M/s LMN & Co LLP to obtain his no objection letter.</p> <p>d) M/s ABC & Co LLP needs to ensure that his appointment has been made by WEF Ltd as per the provisions of the Companies Act 2013. Once that is done, ABC & Co LLP need not make any communication with LMN & Co LLP.</p>	
7.CA I	M19M
<p>One afternoon in the first week of June 2018, there was a heated discussion between the audit engagement partner of Shah & associates and the finance director of Pecker & Co. The discussion was mainly on non-cooperation of the company staff to provide the relevant information to the auditors. The staff thought that the auditors were a hindrance in their routine work. The finance director called an urgent meeting to discuss the removal of the auditor Shah & Associates. Within the next week the partner of Shah & Associates was called and informed that they are no more the auditors of Pecker & Co. Comment if the removal of the auditor was proper in accordance with the Companies Act, 2013.</p>	
<p>a) Yes, the finance director was correct in the procedure of the removal of auditors by a simple board meeting discussion.</p> <p>b) No, the removal of auditors before the expiry of the term should be done with the prior permission from the Central Government.</p> <p>c) Once appointed, the board of directors cannot remove the present auditors of the company.</p> <p>d) Yes, Pecker & Co is not a government company, hence the board of directors can remove the auditors by themselves.</p>	
9.CA I	M19M
<p>SBC Private Limited appointed Mr. Vijay, Chartered Accountant as auditor of the company for the year 2017-18. While verifying the accounts Mr. Vijay noticed that the company has neither made any provision for accrued gratuity liability nor obtained the actuarial valuation thereon. Mr. Vijay obtained the actuarial valuation and includes the matter in his Audit Report to the Company's Board of Directors mentioning the amount of accrued liability not provided for. The Board agreed with the auditor's observation and the amount of liability quantified by him. But the auditor didn't disclose the same in his audit report to Member's. One of the members raised an objection on the audit report stating that it does not represent a true and fair view as even though the company has not maintained proper books of accounts as per accounting standards, the auditor has not qualified his report. Whether the auditor is required to give a qualified opinion in his report to members on non-provision of gratuity in company's accounts when the same has already been included in the report to Company's Board of Directors?</p>	
<p>a) As the auditor has already disclosed the matter of non-provisioning in his report to Company's Board of Directors, there is no need to disclose the same in report to Member's u/s 143 of the Companies Act, 2013.</p> <p>b) Non-provisioning for accruing gratuity is in contravention to applicable Accounting Standard (AS-15), therefore the auditor should qualify his report to members through a paragraph on failure of management to quantify the amount of liability.</p>	

- c) The auditor should revise the accounts as per the actuarial valuation obtained by him and the revised accounts only should be presented before the Board of Directors and Members. The auditor is not required to qualify his report.
- d) U/s 143 of the Companies Act, 2013, the auditor should qualify his report to members only when the matter reported by the auditor is answered in the negative or with a qualification by the Board. In the above case the board agreed with the auditor's observation, so he need not qualify his report.

10.CA I	S-1
Section 144 of the Companies Act, 2013 does not excludes the statutory auditor of the company to render the services of -	
<ul style="list-style-type: none"> a) Investment advisory b) Investment banking c) Branch auditor d) Actuarial. 	

11.CA I	SM-22
<p>Setir Ltd is a company in which 59% of the paid-up share capital is held by Punjab Government. The company is engaged in the business of providing consultancy services in relation to construction projects. The Punjab Government is also planning to induct funds in the company in future, if required. Nocri Ltd is a company controlled by Setir Ltd. The business of Nokri Ltd is construction and has an annual turnover of INR 2500 crores approx. The audit of the financial statements of Nocri Ltd for the financial year ended 31 March 2021 got completed but Nocri Ltd observed that during the course of audit, there was lot of intervention of Comptroller & Auditor General of India, wherein C&AG was giving directions to the auditors on the manner in which audit should be conducted in respect of certain areas. Further, it also received comments from C&AG on the audit report of the auditors. Nocri Ltd is seeking legal opinion to go against C&AG so that they can avoid unnecessary interference of C&AG and is also looking to have new auditors appointed by Nocri Ltd with whom they will have an engagement letter with the terms that those auditors don't accept any interference of C&AG which the existing auditors have not been able to avoid.</p> <p>In this context, please advise which of the following should be correct?</p>	
<ul style="list-style-type: none"> a) The stand of the existing auditors should have been better i.e., not to accept any interference of C&AG. b) Management could have planned the audit work better by including the same terms in engagement letter with existing auditors instead of appointing another auditor. c) C&AG involvement could have been accepted if this was the audit of Setir Ltd but not in case of Nokri Ltd and hence Nokri Ltd should also reach out to its parent company to get this resolved. d) Stand of Nokri Ltd is wrong as the C&AG may get involved in the audit of Nokri Ltd. 	

12.CA I	SM-22
<p>SHRD Private Ltd is engaged in the business of software and consultancy. The company has an annual turnover of Rs.2,000 crores but its profit margins are not very good as compared to the industry standards. For the financial year ended 31 March 2019, the company proposed appointment of its statutory auditors at its general meeting, however, the remuneration was not finalized. The statutory auditors completed the engagement formalities including the engagement letter between the company and the auditors and it was decided that the engagement letter be signed without fee i.e. with the clause that the fee to be mutually decided. Please provide your views on this.</p>	
<ul style="list-style-type: none"> a) Such engagement letter is not valid. b) Engagement letter with such arrangement is valid. c) Engagement letter should specify the fee of last year, if applicable, if the fee for the current year is not yet finalized at the time of signing of the engagement letter. d) Engagement letter should specify 10% increase in the fee as compared to last year as per the norms of the ICAI, in case the fee is not finalized at the time of signing of the engagement letter. 	

13.CA I	M19M
	<p>TSV & Co, Chartered Accountants is an audit firm having two partners CA T and CA V. The firm TSV & Co. is already holding an appointment as auditors of 36 public companies and none of the partners hold any company audits in their personal capacity or as partners with another firm. TSV & Co. has been offered the appointment as auditors of 7 more private limited companies. Of the seven, one is a company with a paid-up share capital of Rs. 150 crores, five are "Small Companies" as per the Companies Act and one is a "Dormant Company". Determine the number of companies out of 7 for which TSV & Co. can accept the appointment as an auditor.</p> <p>a) 5 b) 6 c) 7 d) 1</p>
14.CA I	M19M
	<p>XY & Co. is a chartered firm with two partners Mr. X and Mr. Y. The firm was appointed auditor for 35 companies in the year 2017 and Mr. X was having total 19 audits in his name. Mr. Y was also partner in EFY & Co. Where he was appointed auditor in 4 companies. On 4th August 2017, Mr. X met with an accident and died. The firm was reconstituted with Mr. Y as the proprietor of new firm and the audits of the new firm reduced to 16. The new firm, in which Mr. Y is the proprietor, accepted the audit of a Private Limited Company having paid up capital of Rs. 52 crores on 30th August 2017. EFY & Co., another chartered firm, contended that Mr. Y cannot accept the appointment of Private Limited Company as he has already crossed the ceiling of 20 company audits in that year. Do you think that EFY & Co.'s claim is valid?</p> <p>a) EFY & Co.'s claim is valid as MR. Y has already been appointed auditor for 20 companies i.e. 16 in the reconstituted firm and 4 in EFY & Co. b) Mr. Y cannot accept the audit of Private Limited Company in the year in which there is change in the constitution of firm, therefore the claim of EFY & Co. is valid. c) Mr. Y can accept the audit as the ceiling of 20 company audits is applicable for each firm in which the chartered accountant is a partner or proprietor. d) EFY & Co.'s claim is void as the ceiling of 20 company audits doesn't include audit of private company having paid up capital less than Rs. 100 crores</p>
15.CA I	M19M
	<p>Prabhakar & Associates were the statutory auditors of Inverto& Co for last 2 years. In the current year, one of the partners Mr. Anant Prabhakar, a qualified chartered accountant from ICAI also got qualified as a chartered management accountant from a foreign accountancy body CIMA. The management of Inverto& Co were glad to hear this and offered Mr. Anant to handle the management services of the company from this year. Is he allowed take up this assignment for Inverto& Co as per the Chartered Accountants Act 1949 and Schedules thereunder?</p> <p>a) Yes, being a qualified management accountant within their group, Prabhakar & Associates should take this assignment. b) Yes, Mr. Anant can cover the management services and another auditor from the firm can cover the statutory audit of Inverto& Co. c) No, the management services cannot be provided by the firm, who currently is the statutory auditor of Inverto& Co. d) No, Mr. Anant is newly qualified management accountant who does not have enough experience, hence should not take up the management services assignment.</p>

16.CA I	N20M
<p>"VAS Ltd, a subsidiary of KEP Ltd. is engaged in the business of manufacturing fertilizers. 15% shares of KEP Ltd are held by the Central Government, 25% by Kerala Government and 20% by Karnataka Government. M/s ABC & Associate, a firm of Chartered Accountants, has been appointed as first statutory auditor of VAS Ltd by its Board of Directors. You are required to suggest which of the following statements would be correct.</p>	
<p>a) The first auditor of VAS Ltd shall be appointed by the Comptroller and Auditor- General of India within 60 days from the date of registration.</p> <p>b) The first auditor of VAS Ltd shall be appointed by the Comptroller and Auditor - General of India within 180 days from the date of registration.</p> <p>c) The first auditor of VAS Ltd shall be appointed by members in EGM within 30 days from the date of registration.</p> <p>d) The first auditor of VAS Ltd shall be appointed by the Board of Directors within 30 days from the date of registration."</p>	
17.CA I	SM-22
<p>Annual Remuneration payable to a single non-executive director of ABC Ltd exceeds 25% of the total annual remuneration payable to all non-executive directors.</p>	
<p>a) Approval of shareholders by special resolution shall be obtained every year.</p> <p>b) Approval of shareholders in general meeting shall be obtained every year.</p> <p>c) None of the above</p> <p>d) Approval of Board of Directors.</p>	
18.CA I	SM-22
<p>M/s MNO & Co. (a CA firm with 3 partners) are the statutory auditors of PCL Limited, a company engaged in real estate business. PCL Limited recently launched a real estate project in Bangalore Whitefield location at an all- inclusive price of Rs 5,500. PCL Limited also announced that their first 50 customers would be allowed a special inauguration discount of 10%. Mr. M, one of the partners with MNO & Co. and the audit engagement partner for PCL Limited booked one 3 BHK flat and he was offered the all- inclusive price of Rs 4,950 (after 10% inauguration discount). Another partner- Mr. N also booked one 3 BHK flat at the all inclusive price of Rs 5,500. Which of the following statements is correct:</p>	
<p>a) M/s MNO & Co., being the auditors shall not suffer any disqualification on account of such business transaction by Mr. M with audit client since Mr. N was not offered any discount in the booking price.</p> <p>b) M/s MNO & Co., being the auditors shall not suffer any disqualification on account of such business transactions by Mr.M and Mr. N with PCL Limited since the third partner- Mr. O had not done any business transaction with PCL Limited.</p> <p>c) M/s MNO & Co., being the auditors shall not suffer any disqualification on account of such business transactions by Mr. M and Mr. N with audit client since business transactions with audit client in the ordinary course of business, are allowed, without any consideration on transaction price.</p> <p>d) M/s MNO & Co., being the auditors shall not suffer any disqualification on account of such business transaction by Mr. M with audit client if Mr. M qualified as among the first 50 eligible customers as per the marketing scheme and it can be demonstrated that PCL Limited has passed on similar 10% inauguration discount to other 49 customers and further, the discount of 10% offered to Mr. M was in the nature of routine commercial transaction, in the ordinary course of business of PCL Limited.</p>	
19.CA I	SM-22
<p>Mr. P, a partner of XYZ Ltd. is a statutory auditor of PQR Ltd since 1st April, 2015. Mr. P also provides services of tax audit and represents before tax authorities for various litigation matters. PQR Ltd now wishes to avail internal audit and booking keeping services from Mr.P. Mr. P is required to give his views for whether he can render such services to PQR Ltd. in</p>	

	<p>addition to existing services. You are required to choose an appropriate option from the following alternatives:</p> <p>a) Mr. P can provide additional services by taking approval from Board of Directors of PQR Ltd.</p> <p>b) Mr. P can provide additional services by taking approval from shareholders of PQR Ltd.</p> <p>c) Mr. P can provide additional services by informing ICAI and MCA.</p> <p>d) Mr. P cannot provide additional services.</p>
20.CA I	SM-22
	<p>VBN & Associates, chartered accountants are Statutory auditors of Gold Ltd. for the year ended 31st March, 2021. While conducting audit for the year, the auditor have come to know that the fraud amounting to ₹ 2 crore was done by one of the employees. Under Sec 143(12) of Companies Act, 2013, you are required to suggest whether as a statutory auditor, VBN & Associates is required:</p> <p>a) To report fraud to Audit Committee/ Board of Directors of Gold Ltd and in Auditor's Report.</p> <p>b) To report fraud to shareholders of Gold Ltd and no further reporting.</p> <p>c) To report fraud only in Auditor's Report.</p> <p>d) To report fraud to Central Government and in Auditor's Report.</p>
21.CA I	SM-22
	<p>AJ Associates a chartered accountant firm is acting as an auditor of the XYZ Ltd. Provisions of the cost audit are also applicable to the XYZ Ltd. Two years ago, ABC Associates was appointed as cost auditor of the XYZ Ltd. However, this year due to some reason the Cost Auditor firm resigned. The management being of the opinion that AJ Associates being the auditor of the company knows everything about the company so AJ Associates should be appointed as the cost auditor of the XYZ Ltd for the current year. Select the correct statement with respect to the appointment of AJ Associates as the cost auditor of the Company?</p> <p>(i) Practicing CA/CWA/CMA can be appointed as cost auditor of the company, so appointment of AJ Associates as cost auditor being a company auditor is valid.</p> <p>(ii) Only Practicing CWA/CMA can be appointed as cost auditor of the company, but appointment of AJ Associates as cost auditor being a company auditor is invalid.</p> <p>(iii) Company Auditor can be appointed as cost auditor subject to fulfilment of certain conditions as specified under section 148 of the Companies Act 2013.</p> <p>(iv) Company Auditor cannot be appointed as cost auditor of the company</p> <p>(a) (i) and (ii).</p> <p>(b) (ii) and (iv).</p> <p>(c) (ii) and (iii).</p> <p>(d) (i) and (iv).</p>

22.CA I	N22M																
<p>Mr. Kartik a practicing Chartered Accountant was engaged in conducting statutory audits, data privacy assessments and other trade compliance risk assessments for his clients. As a result, he had good knowledge of the laws and regulations applicable to an entity operating digital space. In 2022, some of his clients approached him and asked him to share his knowledge and guide them in which Technology Company they should invest in. Mr. Kartik considered their request and started providing paid advisory regarding investment in Technology and Fintech Sector stock. By the end of FY 2022, Mr. Kartik's clients made a good amount of profit based on the advice provided by Mr. Kartik. The overall income (gross) earned by Mr. Kartik is mentioned below:</p> <table border="1"> <thead> <tr> <th>Client Name</th> <th>Statutory Audit Service Fee</th> <th>Other Advisory Service Fee</th> <th>Investment Advisory Service Fee</th> </tr> </thead> <tbody> <tr> <td>Fondue Forte Pvt Ltd</td> <td style="text-align: center;">-</td> <td style="text-align: center;">6,57,000</td> <td style="text-align: center;">2,36,200</td> </tr> <tr> <td>Home Made Pvt Ltd</td> <td style="text-align: center;">7,50,000</td> <td style="text-align: center;">-</td> <td style="text-align: center;">6,75,000</td> </tr> <tr> <td>Home Fresh Pvt Ltd (Fully owned subsidiary of Home Made Pvt Ltd.)</td> <td style="text-align: center;">3,45,000</td> <td style="text-align: center;">-</td> <td style="text-align: center;">12,50,000</td> </tr> </tbody> </table>		Client Name	Statutory Audit Service Fee	Other Advisory Service Fee	Investment Advisory Service Fee	Fondue Forte Pvt Ltd	-	6,57,000	2,36,200	Home Made Pvt Ltd	7,50,000	-	6,75,000	Home Fresh Pvt Ltd (Fully owned subsidiary of Home Made Pvt Ltd.)	3,45,000	-	12,50,000
Client Name	Statutory Audit Service Fee	Other Advisory Service Fee	Investment Advisory Service Fee														
Fondue Forte Pvt Ltd	-	6,57,000	2,36,200														
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<p>Whether Mr. Kartik can do so?</p>																	
<p>(a) Mr. Kartik is allowed to provide investment advisory services to its clients under section 144 of the Companies Act 2013. Hence, Mr. Kartik is not liable for professional misconduct.</p> <p>(b) Mr. Kartik cannot provide investment advisory services directly or indirectly to the company or its holding company or subsidiary company as per section 144 of the Companies Act 2013. Moreover, a Chartered Accountant in Practice is not permitted to render any service which is out of the scope of the approved Management Consultancy Service.</p> <p>(c) Mr. Kartik can provide investment advisory services directly or indirectly to the company or its holding company or subsidiary company as per section 144 of the Companies Act 2013 up to 50,00,000 in each calendar year. Hence, Mr. Kartik is not liable for professional misconduct.</p> <p>(d) Mr. Kartik can provide investment advisory services directly or indirectly to the company or its holding company or subsidiary company as per section 144 of the Companies Act 2013 up to 5,00,000 in each calendar year. Hence, Mr. Kartik is liable for professional misconduct</p>																	

23.CA I	N22M
<p>CA. Ansh, the auditor of Rajul Limited, a company in which Government of Puducherry holds 49% & a Central PSU holds 51% of the shares, resigned from the post on 1st June 2021 due to his personal reasons. CA. Babu was appointed as the subsequent auditor of the company by the board of directors on 16th June 2021. One of the shareholders came to know about this information and contended that this appointment is not valid as per the provisions of Companies Act. Is the contention of the shareholder, right? If so, why?</p>	
<p>(a) No. The appointment of shareholder is valid since the appointment is made within 30 days from the date of resignation of CA. Ansh.</p> <p>(b) Yes. The appointment of shareholder is not valid. Since the appointment is made within 30 days from the date of resignation of CA. Ansh, it should have been done by the shareholders and not the board of directors. Board of directors can make the appointment only if no auditor is appointed even beyond 60 days.</p> <p>(c) Yes. Since the appointment is made within 30 days from the date of resignation of CA. Ansh, it should have been done by C&AG and not by the Board of directors. Board of Directors can make the appointment only if no auditor is appointed even beyond 30 days.</p> <p>(d) Yes. The appointment of shareholder is not valid. Since the appointment is made within 30 days from the date of resignation of CA. Ansh, it should have been done by the shareholders and not the board of directors. Board of directors can make the appointment only if no auditor is appointed even beyond 30 days.</p>	

Part 2 - CARO 2020

CARO 1	S-1
	As per CARO, 2020, the auditor is required to report whether the company is required to be registered under section 45-IA of the Reserve Bank of India Act, 1934. If so, whether the registration has been obtained.
	<ul style="list-style-type: none"> a) Under Clause (xi) of paragraph 3 of the CARO, 2020, b) Under Clause (xvi) of paragraph 3 of the CARO, 2020, c) Under Clause (xv) of paragraph 3 of the CARO, 2020, d) Under Clause (xiv) of paragraph 3 of the CARO, 2020,
CARO 2	S-1
	As per Clause (i)(c) of Paragraph 3 of the CARO, 2020, the auditor is required to report on:
	<ul style="list-style-type: none"> a) whether the title deeds of all the immovable properties (other than properties where the company is the lessee and the lease agreements are duly executed in favour of the lessee) disclosed in the financial statements are held in the name of the company, if not, provide the required details b) whether the company has entered into any non-cash transactions with directors or persons connected with him c) whether any fraud by the company or any fraud on the Company by its officers or employees has been noticed or reported during the year; If yes, the nature and the amount involved is to be indicated. d) whether the company is maintaining proper records showing full particulars, including quantitative details and situation of fixed assets;
CARO 3	M19R/M23M
	DCHI Ltd is in the business of optics and imaging products. It is a wholly owned subsidiary of Japanese company, DCHJ Ltd. DCHI Ltd has many expatriates (Expats) working in the company whose tenure range from 2 to 5 years. During the course of audit of financial statements of the company, the statutory auditors observed that the company has not been deducting and depositing the TDS (tax deducted at source) on salaries of expats. The auditors assessed that the impact of this can be significant as the company has many expats and salary amount is significant. Management explained that TDS on salary of expats would lead to unnecessary hassles to the expats and they serve the company only for a short period. How should the auditors of DCHI Ltd deal with this matter?
	<ul style="list-style-type: none"> a) Considering this as a statutory non-compliance, the auditor should look at the significance of the matter and accordingly should report the same in CARO. b) Considering this as a statutory non-compliance, the auditor should look at the significance of the matter and accordingly should consider reporting this in the main report along with CARO. c) The auditor should agree to the management's view as the expats are temporary workers and this may not be convenient for the management. d) Since the matter relates to statutory liability only, the reporting requirements do not arise till the time this becomes disputed.
CARO 4	N19M
	Not Relevant for CARO 2020
	Honeywell Ltd, a listed company pays its key managerial persons the remuneration in excess of the limits which have been prescribed under 197 of the Companies Act, 2013 without obtaining the necessary approvals from the regulatory authority. In this circumstance, the auditor while reporting under CARO 2020, is required to state:
	<ul style="list-style-type: none"> a) Name of the managerial persons to whom the remuneration has been paid in excess of limits

	<p>and the amount involved.</p> <p>b) Name of the managerial persons to whom the remuneration in excess of limits are paid and the steps taken by the company for securing refund of the same.</p> <p>c) The maximum remuneration payable and amount paid in excess of the maximum remuneration to the managerial persons.</p> <p>d) The amount involved and steps taken by the company for securing the refund of the same.</p>
CARO 5	S-1
	<p>LM Ltd. had obtained a Term Loan of rupees 300 lakhs from a bank for the construction of a factory. Since there was a delay in the construction activities, the said funds were temporarily invested in short term deposits. Under which clause of the auditor is required to report</p> <p>a) Under Clause (viii) of paragraph 3 of the CARO, 2020, b) Under Clause (xi) of paragraph 3 of the CARO, 2020, c) Under Clause (x) of paragraph 3 of the CARO, 2020, d) Under Clause (ix) of paragraph 3 of the CARO, 2020,</p>
CARO 6	M19M
	<p>One of your team members has recently qualified as a chartered accountant and joined your team to audit a portfolio of audit clients who are private companies. One of the clients Surrey Pvt. Ltd. is a hotel in the small town near Jaipur. The revenue generated for the current year ended is Rs.10.5 crores and the entity is not a holding or subsidiary of any public company. The owner of the business Mr. Hazelwood runs this family business from last 10 years. Your team member is keen to know whether Surrey Pvt. Ltd is required to comment on the matter prescribed under CARO 2020. Which of your explanations to him are correct?</p> <p>a) The entity's revenue exceeds Rs.10 crores. Hence, no need to comment on the matter prescribed under CARO 2020. b) The entity is not a holding or subsidiary of any public company, hence no need to comment on the matter prescribed under CARO 2020. c) The entity's revenue for the year is Rs.10.5 cr which exceed the limit of Rs.10 cr. Hence, the entity has to provide the comment on the matter prescribed under CARO 2020. d) The entity is not a holding or subsidiary of any public company, hence there is a need to comment on the matter prescribed under CARO 2020</p>
CARO 7	S 1
	<p>Which of the following company is not exempted from reporting under CARO, 2020?</p> <p>a) Banking company. b) Insurance company. c) Company licensed to operate under section 8 of the Companies Act, 2013. d) Private limited company having paid up capital of Rs. 5 crores.</p>
CARO 8	SM-22 / N21M
	<p>Kinfin Private Limited had taken overdrafts from three banks (Bank A, Bank B and Bank C) with a limit of ` 40 lacs each against the security of fixed deposit it had with those banks and an unsecured overdraft from a financial institution (Financial Institution X) of ` 36 lacs. As on 30th October 2020, the management used the overdraft fully of the A & C bank to the tune of ` 40 lacs each. However, the overdraft of second bank (Bank B) was not used until 31st December, 2021. On 31st December, 2021, Management took overdraft of B bank and very next day management paid the overdraft of C bank as the rate of interest charged by Bank C on overdraft facility was 15% whereas, the rate of interest charged by Bank B was 12%. As at 31st March 2022 only overdraft of Bank A and Bank B were used fully, overdrafts of Bank C and Financial Institution X were unused. The paid-up capital and reserves of the company as at that date was ` 85 lacs and its revenue for the financial year ended on 31st March 2022 was ` 8.95 crore. The management of the company is of the opinion that CARO, 2020 is not applicable to it because turnover and paid-up capital were</p>

within the limits prescribed. With respect to the loans, management was of the view that the total outstanding as at 31st March 2022 is less than the prescribed limit. The company further contended that loan limit is to be reckoned per bank or financial institution and not cumulatively. Comment.
<p>a) The CARO 2020 is applicable to the company as the turnover of the company exceeds the prescribed limit.</p> <p>b) The CARO 2020 is not applicable to the company as the turnover of the company does not exceed the prescribed limit.</p> <p>c) The CARO 2020 is not applicable to the company as the borrowing of the company does not exceed the prescribed limit.</p> <p>d) The CARO 2020 is applicable to the company as the borrowing of the company exceeds the prescribed limit</p>

CARO 9	M22M
While reporting under clause (ii) of Paragraph 3 of CARO 2020, which of the following is correct:	
<p>(a) The 10% threshold for reporting must be applied on a gross basis before adjusting excesses and shortages within the class of an inventory and must be based on value for each class of Inventory.</p> <p>(b) The 10% threshold for reporting must be applied on a gross basis before adjusting excesses and shortages within the class of an inventory and must be based on value for all classes of Inventory.</p> <p>(c) The 10% threshold for reporting must be applied on a net basis after adjusting excesses and shortages within the class of an inventory and must be based on value for each class of Inventory.</p> <p>(d) The 10% threshold for reporting must be applied on a net basis after adjusting excesses and shortages within the class of an inventory and must be based on value for all classes of Inventory</p>	

CARO 10	N22R																				
While auditing with respect to compliance with CARO, 2020, Mr. Omprakash, for additional reporting purpose, observed the following, relevant to Para 3(vii) of CARO, 2020:																					
<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 30%;">Statutory Dues</th> <th style="width: 20%;">Undisputed Amount (in lakh)</th> <th style="width: 20%;">Date Payable</th> <th style="width: 30%;">Date Paid</th> </tr> </thead> <tbody> <tr> <td>Provident Fund</td> <td style="text-align: center;">1.5</td> <td style="text-align: center;">24th September, 2021</td> <td style="text-align: center;">27th March, 2022</td> </tr> <tr> <td>GST</td> <td style="text-align: center;">2.45</td> <td style="text-align: center;">23rd October, 2021</td> <td style="text-align: center;">24th April, 2022</td> </tr> <tr> <td>Customs Duty</td> <td style="text-align: center;">0.65</td> <td style="text-align: center;">20th September, 2021</td> <td style="text-align: center;">10th April, 2022</td> </tr> <tr> <td>Income Tax Demand for A.Y. 2019-20</td> <td style="text-align: center;">0.55</td> <td style="text-align: center;">18th October, 2021</td> <td style="text-align: center;">Not Paid till date</td> </tr> </tbody> </table>		Statutory Dues	Undisputed Amount (in lakh)	Date Payable	Date Paid	Provident Fund	1.5	24th September, 2021	27th March, 2022	GST	2.45	23rd October, 2021	24th April, 2022	Customs Duty	0.65	20th September, 2021	10th April, 2022	Income Tax Demand for A.Y. 2019-20	0.55	18th October, 2021	Not Paid till date
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Also, a representation was made to GST Department for waiving a penalty of 1 lakh for late payment of GST demand. What total amount of statutory dues need to be reported by Mr. Omprakash as per Para 3 of CARO?																					
<p>(a) 3.10 lakh.</p> <p>(b) 0.65 lakh.</p> <p>(c) 3.65 lakh.</p> <p>(d) 2.70 lakh</p>																					

CARO 11	N22M
	<p>KFintech Pvt Ltd was having paid-up share capital and reserves of ` 150 lakh including paid-up share capital of ` 90 lakh at the end of FY 20-21. During FY 21-22, KFintech borrowed ` 80 Lakh from Bank A and ` 140 Lakh from Bank B. The amount borrowed from Bank B was repaid during the same FY. For FY 20-21 the turnover of the company was ` 1,850 lakh. Select the appropriate option with respect to the applicability of CARO 2020:</p>
	<p>(a) CARO 2020 will be applicable as the paid-up capital and reserves exceeding the limit specified in the Order i.e., one crore rupees. (b) CARO 2020 will be applicable as the company has paid-up capital and reserves exceeding the limit specified in the Order i.e., one crore rupees and have total borrowings exceeding one crore rupees from any bank or financial institution at any point of time during the financial year. (c) CARO 2020 will not be applicable as the company repaid the amount borrowed from bank B before the end of the financial year and hence, the borrowings do not exceed the limit specified in the Order. (d) CARO 2020 will not be applicable as the company will fall under the exemption provided in the Order for Small Company as per section 2(85) of the Companies Act 2013.</p>
CARO 12	N22M
	<p>CA. A, the auditor of XYZ Limited resigned from the post due to his personal reasons. CA. B was appointed as the subsequent auditor of the company by the Board of Directors. During the conclusion of the audit for the FY, should CA. B mention about CA. A 's resignation in the Companies (Auditor's Report) Order 2020?</p>
	<p>(a) Yes. As per clause (xviii) of para 3 of CARO, CA. B should report the resignation of CA. A and state if he has taken into consideration the issues or objections raised by CA. A. (b) No. Since the resignation of CA. A is due to his own personal reason, the same need not be reported under CARO. (c) Yes. As per clause (xxi) of para 1 of CARO, CA. B should report the resignation of CA. A and state if he has taken into consideration the issues or objections raised by CA. A. (d) No. CARO 2020 does not state any requirements to report resignation of auditor. However, the same needs to be mentioned by CA. B in the Audit Report under Other Matter Paragraph, as per SA 706.</p>

Part 3 – DIVIDEND

Div.1	SM-22 / N21M
	<p data-bbox="236 331 1423 600">SuperFin Rollers Ltd. has declared dividend of 10% on 22nd April, 2021, for the year ended 31st March 2021. The company did not pay or transfer the dividend declared to its 4 shareholders (Mr Sunil, Mr Mukesh, Mr Rakesh & Mr Haresh) who were entitled to receive the dividend. Upon inquiry by the auditor regarding the reason, the Executive Director Mr. Ram provided that there is a legal dispute regarding the right to receive the dividend for these four shareholders. Executive Director Mr. Ram decided not to take any further step to pay the dividend till the time the disputes were not resolved. In the light of the same, kindly guide the auditor with respect to the penalty in the current case as per section 127 of the Companies Act.</p> <ul style="list-style-type: none"> <li data-bbox="284 613 1423 678">a) Executive Director Mr. Ram shall be liable to pay simple interest at the rate of twelve per cent per annum during the period for which such default continues. <li data-bbox="284 680 1423 745">b) Executive Director Mr. Ram shall be liable to pay simple interest at the rate of eighteen percent per annum during the period for which such default continues. <li data-bbox="284 748 1423 846">c) Executive Director Mr. Ram punishable with imprisonment which may extend to two years and with fine which shall not be less than one thousand rupees for every day during which such default continues. <li data-bbox="284 848 1423 913">d) Executive Director Mr. Ram is not liable for punishment as there is no offence under section 127 of the Act.

Part – 4 Company Accounts & Misc

Misc.1	SM-22
	<p data-bbox="236 277 1428 479">Gama Ltd. is a renowned limited liability partnership firm specialized in retendering services relating to statutory audits, tax audits, consultancy relating to direct and indirect taxes etc. Gama Ltd. is appointed as a statutory auditor for the year ended 31st March, 2021 of Beeta Ltd., a listed Company. Alfa Ltd, Chartered Accountants were retiring auditors of Beeta Ltd. You are required to suggest, Gama Ltd. is required to carry out which audit procedures with retiring auditor, Alfa Ltd. before start of audit:</p> <ul data-bbox="284 488 1161 624" style="list-style-type: none">a) To obtain no objection certificate from Alfa Ltd before start of the audit.b) To start the audit and then obtain no objection certificate.c) No objection certificate is not required to be obtained.d) No objection certificate has to be obtained from Beeta Ltd.

**Part 1
COMPANY
AUDIT**

1.CA I	c
2.CA I	a
3.CA I	a
4.CA I	a
5.CA I	c
6.CA I	c
7.CA I	b
9.CA I	d
10.CA I	c
11.CA I	d
12.CA I	b
13.CA I	c
14.CA I	d
15.CA I	c
16.CA I	a
17.CA I	c
18.CA I	d
19.CA I	d
20.CA I	d
21.CA I	b
22.CA I	b
23.CA I	c

Part 2 CARO

CARO 1	b
CARO 2	a
CARO 3	b
CARO 5	d
CARO 6	c
CARO 7	d
CARO 8	d
CARO 9	c
CARO 10	b
CARO 11	d
CARO 12	a

**Part 3
Dividend**

Div.1	d
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**Part 4 Other
Concepts**

C5-OC.1	a
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Ch. 6 AUDIT REPORT (SA 700 series)

PART 1 -SA 700

700.1	SM-22
<p>KPI Ltd is a joint venture of KPI Inc, a company based in US, and OPQ Ltd, a company based in Japan (hereinafter referred to as 'JV partners'). KPI Ltd was registered in India and is operating as a marketing support company for KPI Inc. All the costs of KPI Ltd are incurred in India and entire revenue of KPI Inc is generated in USD. The entire funding requirements of KPI Ltd are taken care of by the JV partners. Since KPI Ltd is based in India, hence it is also required to get its financial statements audited.</p> <p>The company appointed new auditors for the audit of the financial statements for the year ended 31 March 2019 after doing all appointment formalities wherein auditors also confirmed their eligibility for appointment including independence.</p> <p>The statutory auditors have completed their audit and did not come up any significant observations. Management of KPI Ltd was also very pleased with the working style of the auditors. When the auditors issued their final audit report, the management observed that the auditors did not state anything related to their compliance in respect of ethical requirements regarding independence etc. Further, the audit report was also silent on the requirement related to auditor's communication with those charged with governance in respect of matters related to planned scope & timing of audit and any significant findings.</p> <p>The management requested that the auditors should revisit their report and should include these points in their report, however, as per the auditors all these communications were already completed by them and hence they were not required to form part of the audit report. On the basis of above mentioned facts, please suggest which of the following should be correct.</p>	<p>a) The auditing standards do not require the auditors to comment on the points which the management is requesting i.e. ethical requirements or matters related to planned scope & timing of audit or any significant findings etc. However, if the auditor wants to include that on the basis of his agreed terms with the management, he may do so.</p> <p>b) The auditing standards require the auditors to comment on the points which the management is requesting i.e. ethical requirements or matters related to planned scope & timing of audit or any significant findings etc. Hence, the auditors should issue rectified report.</p> <p>c) The ethical requirements are already completed by the auditors at the time of appointment itself. Since the audit is completed, there is no need to comment on the planned scope & timing of audit. Since there are no significant findings so this communication is also not possible. Hence, the auditors need not revisit their report.</p> <p>d) The ethical requirements are already completed by the auditors at the time of appointment itself and there are no significant findings, hence, there is no need to comment on these points. However, the auditors should state that they communicate with those charged with governance regarding the planned scope & timing of audit. Therefore, the auditors should revisit their report.</p>

PART 2 -SA 701

701.1	N19R/SM-22
	<p>RBJ Ltd is a listed company engaged in the business of software and is one of the largest company operating in this sector in India. The company's annual turnover is INR 40,000 crores with profits of INR 5,000 crores. Due to the nature of the business and the size of the company, the operations of the company are spread out in India as well as outside India. Outside India, the company is focusing more on US and European markets and the company has been able to establish its good reputation in these markets as well.</p> <p>During the course of the audit, the audit team spends significant time on audit of revenue – be it planning, execution or conclusion. The audit team for this engagement is generally very big i.e. a team of approx. 70-80 members. The company's contracts with its various customers are quite complicated and different. The efforts towards audit of revenue also involve significant involvement of senior members of the audit team including the audit partner.</p> <p>After completion of audit for the year ended 31 March 2019, the audit partner was discussing significant matters with the management wherein he also communicated to the management that he plans to include revenue recognition as key audit matter in his audit report. The management was quite surprised to understand this from the auditor and did not agree with revenue recognition to be shown as key audit matter in the audit report. As per the management, the auditors didn't have any modification and such a matter getting reported as key audit matter would not go down well with various stakeholders and would significantly impact the financial positions of the company in the market. The auditors were not able to convince the management in respect of this point and there was a difference of opinion. You are requested to give your view in respect of this matter.</p> <ol style="list-style-type: none"> The concern of the management is valid. For such a large sized company, such type of matter getting reported as key audit matter is not appropriate. The assessment of the auditor is valid. Such a matter qualifies to be a key audit matter and hence should be reported accordingly by the auditor in his audit report. Reporting revenue as key audit matter when the auditor does not have observation in that area leading to any modification in his report, would not be appropriate. This being the first year of reporting of key audit matters, the auditor should take a soft stand and should avoid reporting such controversial matters in his report.
701.2	M19M
	<p>While auditing the complete set of consolidated financial statements of Tulips Ltd., a listed company, using a fair presentation framework, M/s Pintu & Co., a Chartered Accountant firm, discovered that the consolidated financial statements are materially misstated due to the non-consolidation of a subsidiary. The material misstatement is deemed to be pervasive to the consolidated financial statements. The effects of the misstatement on the consolidated financial statements have not been determined because it was not practicable to do so. Thus, M/s Pintu & Co. decided to provide an adverse opinion for the same and further determined that, there are no key audit matters other than the matter to be described in the Basis for Adverse Opinion section. Comment whether M/s Pintu & Co. needs to report under SA 701 'Communicating Key Audit Matters in the Independent Auditor's Report'?</p> <ol style="list-style-type: none"> M/s Pintu & Co. have the option to follow SA 701, thus, need not to report any key audit matters. SA 701 is mandatory in the case of audit of listed entities, however, as there are no key audit matters other than the matter to be described in the Basis for Adverse Opinion section, no 'Key Audit Matters' para needs to be stated under audit report. SA 701 is mandatory in the case of audit of listed entities, however, as there are no key audit matters other than the matter to be described in the Basis for Adverse Opinion section, M/s Pintu & Co. shall state, under 'Key Audit Matters' para, that 'except for the matter described in the Basis for Adverse Opinion section, we have determined that there are no other key audit matters to communicate in our report.'

- d) M/s Pintu & Co. is under compulsion to follow SA 701 as the audit is of a listed company and shall report

701.3	SM-22
<p>LMN & Co LLP is a large firm of Chartered Accountants having its offices based in Delhi, Pune, Chandigarh and Bangalore. The firm has staff of around 300 with 28 Partners. The firm has also created various departments for various services that it offers – statutory audit, risk advisory, mergers & acquisitions, indirect tax and direct tax, where dedicated teams are working who are specialized in those fields. The firm is also considering to create departments on the basis of industry sectors so that the staff can become specialized into specific industries as the same would help in the objective of the firm i.e., to offer best quality service to its various clients. Statutory audit department of the firm has 13 partners across various offices in India out of which 6 are based in Delhi office.</p> <p>The audit team of one of the prestigious clients, KSH Ltd, has concluded that audit where audit partner was AD Jain. As per the agreed timelines, the financial statements and the audit report were planned to be signed on 30 June 2019, however, on 29 June 2019, AD Jain was required to move out of India due to some exigency and would be back to India after a month's time. He was also not accessible during this period.</p> <p>The management of KSH Ltd discussed the matter with another partner of the audit firm, SK Gupta, who eventually signed the audit report on 30 June 2019 even though he was not part of the audit team which was involved in the fieldwork. We would like to understand your views in respect of this matter. After completion of audit for the year ended 31 March 2019, the audit partner was discussing significant matters with the management wherein he also communicated to the management that he plans to include revenue recognition as key audit matter in his audit report. The management was quite surprised to understand this from the auditor and did not agree with revenue recognition to be shown as key audit matter in the audit report. As per the management, the auditors didn't have any modification and such a matter getting reported as key audit matter would not go down well with various stakeholders and would significantly impact the financial positions of the company in the market. The auditors were not able to convince the management in respect of this point and there was a difference of opinion. You are requested to give your view in respect of this matter.</p>	
<p>a) The management in such a case should have waited for AD Jain to come back and then get the report signed. The audit report in this case would be considered to be invalid.</p> <p>b) SK Gupta signed the audit report considering the client was prestigious for the firm which was unethical.</p> <p>c) Signing of the audit report as per the agreed timelines by SK Gupta was fine as he was also the audit partner of the firm.</p> <p>d) Signing of audit report by any other person interferes with the concept of clarity of responsibility.</p>	
701.4	N20R
<p>"Before concluding the audit, there was a difference of opinion between the audit committee and the auditors as to which among the following are the areas which the auditor should take into account to determine "Key Audit Matter" as per SA 701:</p> <p>(I) The effect on audit of significant transactions that took place in the FY. (II) Areas of high risk as assessed and reported by management's expert. (III) Significant auditor judgement relating to areas in the financials that involved significant management judgement.</p> <p>As per SA 701- Communicating Key audit matters in the Independent auditor's Report, which among the above-mentioned areas should CA & Co. take into account to determine "Key Audit Matter"?</p>	
<p>a) (I) & (III) b) (II) only</p>	

- | |
|-----------------------|
| c) (I) & (II) |
| d) (I), (II) & (III)" |

701.5	SM-22 / N21M
Description of each key audit matter in the “key audit matters section” needs to cover except following aspects:	
<ul style="list-style-type: none"> a) Reference to related disclosures, if any, in the financial statements. b) Explanation on the matter given by management. c) How the matter was addressed in the audit. d) Why the matter was considered to be one of most significance in the audit and therefore determined to be a key audit matter 	

PART 3 - SA 705

705.1	S-1
When does an auditor shall modify the opinion in the auditor's report?	
<p>a) When, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement.</p> <p>b) When, unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement.</p> <p>c) (a) and (b) both.</p> <p>d) Either (a) or (b)</p>	
705.2	S-2
<p>A Ltd. is a company in the business of buying and selling modern and contemporary Indian arts. Following are the assets (in millions) of the Company on 31 March 2017:</p> <ul style="list-style-type: none"> • Fixed assets: INR 10 • Investments: INR 20 • Loans and advances: INR 40 • Inventories: INR 400 • Trade receivables: INR 10 • Cash and cash equivalents: INR 20 <p>The management has not obtained valuation of inventories as at 31 March 2017 from a valuation expert in artforms. The auditors could not perform alternate procedures for valuation of inventories. Therefore, auditors were not able to comment on the carrying value of inventories. However, the auditors were able to obtain sufficient appropriate audit evidence in respect of all other captions of financial statements. The auditors qualified their opinion in the auditor's report. What are your views on auditors qualifying their report?</p> <p>a) The auditors were able to obtain sufficient appropriate audit evidence in respect of all captions of financial statements other than inventories. The auditors may qualify their opinion in the auditor's report considering only one caption of the financial statements could be misstated.</p> <p>b) Total assets amount to Rs. 500 million, out of which, Rs. 400 million pertaining to inventories comprises of 80% of total assets. This signifies that the auditors are not able to obtain sufficient appropriate audit evidence on 80% of the assets. Hence, possible misstatement, if any, could be pervasive. Therefore, the auditors should issue adverse opinion.</p> <p>c) Total assets amount to Rs. 500 million, out of which, Rs. 400 million pertaining to inventories comprises of 80% of total assets. This signifies that the auditors are not able to obtain sufficient appropriate audit evidence on 80% of the assets. Hence, possible misstatement, if any, could be pervasive. Therefore, the auditors should disclaim their opinion.</p> <p>d) Inventory is considered to be an important component of the financial statements. This is one of the items wherein significant risk may exist from the audit's perspective. Auditor should take cognizance of this fact and accordingly decide his opinion – qualified/ adverse/ disclaimer.</p>	
705.3	M19M
<p>AHKPL Ltd. is an unlisted company in the business of the real estate following Accounting Standards. The company recognizes revenue on the basis of percentage completion as per AS 7. The company has various residential and commercial projects at different locations for which separate profitability statements are prepared by the management. Profitability statements are based on estimated costs of the projects. While reviewing the profitability statements, statutory auditors observed that the profitability of the projects have been fluctuating significantly year on year and the prime reason for that is the change in the estimated costs. As per the auditors, frequent changes are made by the management in the estimated costs to increase the percentage completion and through which revenue and profit numbers are manipulated. The auditors are not satisfied with the profitability statements of two major projects which account for 50% of the total</p>	

	<p>turnover of the company. Management tried to explain the auditors saying that the changes would happen because of the dynamics of the industry which have been changing significantly and are unfavourable to the industry as a whole. All of this is leading to changes in the estimated costs. How should the auditors deal with this matter?</p>
	<ul style="list-style-type: none"> a) Management's view seems reasonable. Estimated costs are only estimates which are subject to changes and hence the auditors should drop this matter. b) The auditors view seems reasonable and if the management does not agree, the auditors should issue qualified report. c) The auditors should consider the impact of the adjustment on the financial statements and if the impact is pervasive, the auditor should issue adverse opinion. d) The auditors should consider the impact of the adjustment on the financial statements and may take the adjustment to unadjusted entry in the management representation letter and basis that issue a clean report.

705.5	M19M
	<p>OPP & Co LLP is the statutory auditor of ABBA Private Limited. The company has an annual turnover of INR1000 crores and profits of INR 250 crores. The company is planning to get listed next year. The company appointed OPP & CO LLP as new auditors to have a fresh look on their financial systems so that the financial reporting can be improved wherever required. During the course of audit, the auditors have been facing lot of challenges to obtain sufficient appropriate audit evidence and have discussed the same with the management. Now the auditors are determining the implications. Please suggest which one of the following should not be the implication in respect of this matter.</p>
	<ul style="list-style-type: none"> a) If the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive, the auditor shall qualify the opinion. b) If the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive so that a qualification of the opinion would be inadequate to communicate the gravity of the situation, the auditor shall withdraw from the audit, where practicable and possible under applicable law or regulation. c) If the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive so that a qualification of the opinion would be inadequate to communicate the gravity of the situation, the auditor shall withdraw from the audit, where practicable and possible under applicable law or regulation. If withdrawal from the audit before issuing the auditor's report is not practicable or possible, disclaim an opinion on the financial statements. d) If the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive so that a qualification of the opinion would be inadequate to communicate the gravity of the situation, the auditor shall withdraw from the audit, where practicable and possible under applicable law or regulation. If withdrawal from the audit before issuing the auditor's report is not practicable or possible, report the matter to the Registrar of Companies.

705.6	SM-22
	<p>SKJ Private Ltd has an annual turnover of INR 200 crores and profits of INR 25 crores. The company is engaged in the business of textiles and has fairly stable operations over the years. There has not been much growth in the company in the last few years despite the attempts of the management. Currently the management is more focused towards cost cutting and has been considering all the options to achieve that objective. The statutory auditors of the company have been auditing the financial statements for the last 3 years and have issued clean reports over these years. During the financial year ended 31 March 2021, management got a large project from a new customer which resulted in significant increase in the turnover of the company. However, the profitability of the company did not improve much because the margins in the contract were not high. The statutory auditors during the course of their audit of financial statements for the year ended 31 March 2021 (their fourth year of audit) did not agree with the revenue recognition criteria followed by the</p>

	<p>company. Since the matter was significant, lot of discussions/debates happened between the auditor and the management. But it was finally agreed that the auditors would qualify their audit report. Auditors wanted that the management should explain this matter in detail in the notes to accounts to the financial statement over which the auditors are qualifying the audit report. However, the management had a different view. Management said that if the auditor is qualifying his report then why should the management also highlight that matter in the financial statement and hence refused to include any note for the same. Because of this conflict, audit is not getting concluded. You are requested to give your view in respect of this matter so that the matter gets concluded.</p>
	<p>a) In the given situation, if the management does not agree to give a note in the financial statements then the auditor should not hold the audit report. However, in such a case, the auditor would need to give disclaimer of opinion in his report instead of qualification.</p> <p>b) The argument of the management seems correct. Auditor cannot do both the things i.e., to qualify and then also get that highlighted in the financial statements. That note would not be beneficial for the users of the financial statements.</p> <p>c) In case of such matters related to revenue recognition, it is always better to give detailed explanation in the notes to accounts to the financial statements. If the explanation is satisfactory then the auditor should also consider giving emphasis of matter instead of qualification.</p> <p>d) The requirement of the auditor is beneficial for the company because by giving an explanation of the matter, on which auditor has given a qualification, in the notes to accounts, the management would be able to explain their perspective/ point of view to the users of the financial statements. In that case, auditor while giving the qualification can give reference to the notes to accounts otherwise the entire matter would form part of the audit report. However, the auditor should not hold his report if the management does not want to give any explanation in the notes to accounts</p>

705.7	S-1/M20M
	<p>The auditor shall express _____ opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements</p>
	<p>a) Adverse b) Qualified c) Disclaimer of opinion d) clean</p>

705.8	S-1
	<p>Medivision Industries designs and manufactures spectacles. Medivision's year end was 31 March 2018 and its draft financial statements show a profit before tax of Rs.60 lakh. The fieldwork stage for this audit has largely been completed but there are few outstanding issues.</p> <p>On 1 January 2018, Medivision began the commercial production of a new range of lightweight frames which have been proven to keep their shape regardless as to how roughly they are treated. Up to 31 December 2017, the company had correctly capitalised development costs of Rs.45 lakh relating to this project. The directors believe that the new frames will have a product life of three years. The financial statements show development costs at a carrying amount of Rs.45 lakh. Medivision's accounting policy states that it amortises intangible assets on a straight-line basis. The auditor's report for Medivision is due to be signed in the next week or so, and you have been unable to resolve a disagreement with the directors concerning the amortisation of the development costs. The directors have refused to include any amortisation on the basis that sales of the product have not yet commenced.</p> <p>Which of the following options correctly summarizes the impact on the auditor's report if the issue remains unresolved?</p>
	<p>a) The auditor to provide an 'Unmodified opinion', since the directors are correct not to include any amortization on the basis that sales of the product have not yet commenced.</p> <p>b) The auditor to provide an 'Unmodified opinion' with emphasis of matter paragraph about the</p>

	<p>amortization charge on the capitalized development costs.</p> <p>c) The auditor to provide a Modified opinion - Adverse opinion since having obtained sufficient appropriate evidence, concludes that the misstatement is both material and pervasive.</p> <p>d) The auditor to provide a Modified opinion – Qualified opinion due to material misstatement of not recording the amortization charge on the capitalized development costs, which is material but not pervasive.</p>
705.9	S-1/SM-22
	<p>CA Kamal is the statutory auditor of Autocover Ltd. for the FY 2020-21. The company is engaged in the business of manufacture of car accessories. CA Kamal noticed that the inventories of the company amounting to Rs. 46 crores (equal to 25% of the total assets of the company) at the end of the year do not exist. Also, sales amounting to Rs. 33 crores (equal to 10% of the total sales during the year) have not actually occurred. CA Kamal noticed both the material discrepancies just before the finalisation of the audit report for the year ending 31.03.2021. CA. Kamal considers that the above misstatement would distort the true and fair view to a greater extent. What is correct course of action that CA Kamal should consider in such a situation?</p>
	<p>a) CA Kamal should consider withdrawing from the audit engagement or issuing a disclaimer of opinion for the FY 2020-21.</p> <p>b) CA Kamal should consider issuing an adverse opinion and mentioning both the material discrepancies in the basis for adverse opinion paragraph of the auditor’s report.</p> <p>c) CA Kamal should ask the management to explain both the discrepancies in the notes to accounts and he himself should highlight the matter in the Key Audit matter paragraph of the auditor’s report.</p> <p>d) CA Kamal should give a qualified opinion along with the specific mention of the matters in the Emphasis of matter paragraph in the auditor’s report along with appropriate disclosure in the notes to accounts to be made by the management of Autocover Ltd.</p>
705.10	S-1 / M21M/M22M
	<p>While verifying the salary expense of employees, the auditor has been asked to rely on the values as per SAP software and some hard copy reports and documents as the HRMS package (source software) has become corrupt during the year and the management is not having any data backup. How should the auditor deal with this issue?</p>
	<p>a) The auditor should issue a disclaimer of opinion as records are destroyed and he is unable to obtain sufficient appropriate audit evidence.</p> <p>b) The auditor should perform alternative procedures to obtain sufficient and appropriate audit evidence before disclaiming the opinion.</p> <p>c) The auditor should issue an adverse opinion stating that it is deficiency in internal controls.</p> <p>d) The auditor can rely on the SAP data and there is no need for qualification of report.</p>
705.11	M22R
	<p>Moon Ltd. is a company engaged in the manufacture of iron and steel bars. VP & Associates are the statutory auditors of Moon Ltd. for the FY 2021-22. During the course of audit, CA Vikash, the engagement partner, found that the Company’s financing arrangements have expired, and the amount outstanding was payable on March 31, 2022.</p> <p>The Company has been unable to re-negotiate or obtain replacement financing and is considering filing for bankruptcy. These events indicate a material uncertainty that may cast significant doubt on the Company’s ability to continue as a going concern and therefore it may be unable to realize its assets and discharge its liabilities in the normal course of business. The financial statements (and notes thereto) do not disclose this fact. What opinion should CA Vikash express in the case of Moon Ltd.?</p>
	<p>a) Unmodified opinion.</p> <p>b) Qualified opinion.</p> <p>c) Adverse opinion.</p> <p>d) Disclaimer of opinion.</p>

PART 4- SA 706

706.1	M19M
<p>APP Ltd. is listed on National Stock Exchange in India. Post audit rotation, KYP & Co LLP have been appointed as the statutory auditors of APP Ltd. The company has a pending litigation in respect of service tax matter which has been going on for long time now and exposure of the company towards that litigation is very significant. The new auditors got the exposure of this case evaluated by involving their in-house tax experts who have shared a view that the exposure of the company would be medium. As per the requirements of accounting standards, medium exposure would be considered as a possible impact for which probability is 50%. The company has been disclosing this as a contingent liability in the previous years. However, the new auditors are of the view that this is a significant matter that requires user's attention by disclosing this in the financial statements and it is of such importance that it is fundamental to user's understanding of financial statements.</p> <p>Further there is a material uncertainty in respect of this matter (i.e. demand raised by service tax department).Basis this, auditors want to include Emphasis of matter (EOM) in their report. Management is of the view that since this was not reported by previous auditors as EOM, hence it should not be included by new auditors also and also being a listed company, it is not appropriate to include EOM in the first year of audit by a new firm. Please suggest which of the following is correct.</p>	
<p>a) EOM should be included by new auditors. b) EOM should not be included by new auditors if the previous auditors have not given that. c) EOM should not be given, however, there should be a disclosure of this matter in the financial statements and also the fact that auditors are in the first year of audit and this matter would require detailed evaluation. d) Auditors should qualify the report instead of EOM.</p>	
706.2	S-2
<p>DSP Chartered Accountants have been appointed statutory auditors of Flakes Private Limited for the year 2016-17. The company's net profit has declined by 5% as compared to previous year in spite of increase in sales. On verification of company's profit & loss account it is noticed that in the current year a huge amount is debited as loss on sale of fixed assets due to which the profits has reduced. The auditor discussed the matter with management and was told that since the lot of fixed assets were lying idle due to their non-working condition, they have been sold at less than their written down value. As an auditor do you think that the fact regarding disposal of assets should be disclosed in auditor's report/ notes to accounts?</p>	
<p>a) If the assets has been sold as per company's policy and under applicable Financial Reporting framework, then separate disclosure is not required in auditor's report/ notes to accounts. b) As the sale of assets has an impact on profit for the current year, it should be disclosed in the notes to account of the Financial Statements. c) Even if the assets has been sold as per company's policy and under applicable Financial Reporting framework, the auditor should disclose the facts in Emphasis of Matter Paragraph of Audit Report as the loss booked in Profit & Loss account has a material impact on the net profit of the company. d) As the loss on sale of fixed assets is debited in Profit & Loss Account as per Accounting Standard, there is no requirement of disclosure of the same in any report.</p>	
706.3	SM-22
<p>If the prior period financial statements were not audited, the auditor shall state the same in.</p>	
<p>a) Key audit matter section b) Emphasis of matter paragraph c) Going concern paragraph d) Other matter paragraph</p>	

PART 5- SA 710

710.1	S-2
	<p>Auditor's report on prior period i.e. year ended 31 March 2017 included a modified opinion on an unresolved matter. If such matter is not relevant/ immaterial to the current period figures in the financial statements for the year ended 31 March 2018, how should the auditors deal with this matter in his auditors report for the year ended 31 March 2018?</p> <p>a) Since the matter is not relevant/ material to current period figures, no reporting in respect of this matter would be required in the auditor's report for the year ended 31 March 2018.</p> <p>b) Modify opinion on current period's financial statements because of the effects or possible effects of the unresolved matter on the comparability of the current period and corresponding figures in the auditor's report for the year ended 31 March 2018.</p> <p>c) Considering the matter is not relevant/ material to current period figures, the management may include a note in the financial statements and basis that no reporting in respect of this matter would be required in the auditor's report for the year ended 31 March 2018.</p> <p>d) Include an emphasis of matter because of the effects or possible effects of the unresolved matter on the comparability of the current period and corresponding figures in the auditor's report for the year ended 31 March 2018.</p>
710.2	N19M/SM-22
	<p>While conducting the current year audit of Finco Ltd, the auditor obtains audit evidence that a material misstatement exists in the prior period financial statements. This misstatement was related to recognition of research and development expenditure. The provisions of Ind AS 38 Intangible Assets relating to capitalisation of development expenditure was not applied properly. On this, unmodified opinion had been previously issued. The current auditor verified that the misstatement had not been dealt with as required under Ind AS 8 Accounting Policies, Changes in Accounting Estimates and Errors. Accordingly, the current auditor will:</p> <p>a) Express a qualified or an adverse opinion in the auditor's report on the current period financial statements modified with respect to the corresponding figures included therein.</p> <p>b) Express an unmodified opinion in the auditor's report on the current period financial statements since it was related to the prior year.</p> <p>c) Express a qualified opinion in the auditor's report on the current period financial statements, modified with respect to the corresponding figures included therein.</p> <p>d) Express an adverse opinion in the auditor's report on the current period financial statements, modified with respect to the corresponding figures included therein.</p>
710.3	N19R/SM-22/N22M
	<p>BDJ Ltd is engaged in the business of providing management consultancy services and have been in operation for the last 15 years. The company's financial reporting process is very good and its statutory auditors always issued clean report on the audit of the financial statements of the company. The auditors were required to be rotated due to mandatory audit rotation requirement of the Companies Act 2013. RNJ & Associates, a firm of Chartered Accountants, was appointed as the new auditor of the company for a term of 5 years and have to start their first audit for the financial year ended 31 March 2019. The auditors had a detailed and clear discussion with the management that they will perform their audit procedures in respect of opening balances along with the audit procedures for the financial year ended 31 March 2019. Management agreed with that and the audit was completed as per the plan. The auditors did not have any significant observations and hence they communicated to the management that their report will be clean. Management was quite happy with this and also requested the auditors to share draft report before issuing the final report. In the draft audit report, all the particulars were fine except 'other matters paragraph' wherein the auditors gave a reference that the financial statements for the comparative year ended 31 March 2018 was audited by another auditor. Management asked the audit team to remove this paragraph as the auditors had performed all the audit procedures on opening balances also. But the auditors did not agree with the management. Please advise the auditor or the management whoever is incorrect with the right guidance.</p>

- a) The contention of the management is valid. After performing all the audit procedures, an auditor should not pass on the responsibility to another auditor by including such references in his audit report.
- b) Any auditor has two options, either to perform audit procedures on opening balances or given such reference of another auditor in his report. An auditor can not mix up the things like this auditor has done. It is completely unprofessional.
- c) In the given situation even if the auditor wants to give such reference, the management and the auditor should have taken approval from the previous auditor at the time of appointment of new auditor. In this case, it cannot be done.
- d) The report of the auditor is absolutely correct and is in line with the auditing standards. An auditor is required to include such reference in his report as per the requirements of the auditing standard.

710.4	N19R/SM-22
<p>CA Ram identified that there was a misstatement last year and the same is still not corrected. Although unmodified audit report was issued last year by CA Ram. Guide CA Ram on the audit opinion considering the fact that the last year's misstatement has been identified in the current year and unmodified opinion was issued in the last year?</p>	
<ul style="list-style-type: none"> a) In accordance with SA 710, CA Ram should give unmodified opinion, but include Other matters paragraph in the audit report as last year's profit is being reflected in reserve and surplus. b) In accordance with SA 710, CA Ram should seek legal opinion. c) In accordance with SA 710, CA Ram should qualify current period audit report with respect to corresponding figures only. d) In accordance with SA 710, CA Ram should give unmodified opinion, but last period's modified opinion should be highlighted in Emphasis of matter paragraph. 	

PART 6 - SA 720

720.1	SM-22
	In case of audits of listed entities, other information section is required in auditor's report when at the date of auditor's report:
	(a) Auditor has obtained some or all of the other information (b) Auditor has obtained all of the other information (c) Auditor has obtained or expects to obtain the other information (d) Auditor has obtained some of the other information
720.2	SM-22
	In case of audits of unlisted corporate entities, other information section is required in auditor's report when at the date of auditor's report:
	(a) Auditor has obtained some or all of the other information (b) Auditor has obtained all of the other information (c) Auditor has obtained or expects to obtain the other information (d) Auditor has obtained some of the other information

**AUDITING
STANDARD
AND
GUIDANCE
NOTES - AN
OVERVIEW**

Part 1 SA 700

700.1	b
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Part 2 SA 701

701.1	b
701.2	c
701.3	c
701.4	a
701.5	b

Part 3 SA 705

705.1	d
705.2	c
705.3	c
705.5	d
705.6	d
705.7	a
705.8	a
705.9	b
705.10	b
705.11	c

Part 4 SA 706

706.1	a
706.2	c
706.3	d

Part 5 SA 710

710.1	b
710.2	a
710.3	d
710.4	c

Part 6 SA 720

720.1	c
720.2	a

Ch. 7 AUDIT COMMITTEE AND CORPORATE GOVERNANCE

AC.1	SM-22
<p>ABC Ltd is one of the top 1000 listed entities on the basis of market capitalisation. The Board of Directors of ABC Ltd does not comprise of any women director. The Statutory Auditor who is certifying Corporate Governance as per SEBI regulations, has to ascertain that –</p> <p>a) The Board of directors will have at least 2 independent woman director. b) The Board of directors will have at least 1 independent woman director. c) The Board of directors will have at least 5 independent woman director. d) None of the above</p>	
AC.3	SM-22
<p>The Audit Committee should consist of the following:</p> <p>a) Minimum of 3 directors with independent directors forming a majority. b) Minimum of 4 directors with only one independent director. c) Minimum 2 directors which are independent. d) Minimum 5 directors with 1 independent woman director</p>	
AC.4	SM-22
<p>The auditor should ensure that the board of directors of the top 1000 (2000 from April 20) listed entities shall comprise of –</p> <p>a) not less than 7 directors. b) not less than 4 directors. c) not less than 6 directors. d) not less than 2 directors</p>	
AC.5	SM-22
<p>The Board of Directors of XYZ Ltd, one of the top 2000 listed entities meets 4 times a year. What should be the quorum of the Board of Directors from 1st April 2021 The auditors have suggested that such an attitude of non-cooperation would not help the either party and would defeat the objective of the audit. The management of the company is, however, ready to provide any other information to the auditors. In this situation, please advise both the management and the auditors.</p> <p>a) 1/3rd of its total strength or 3 directors, whichever is higher, including at least 1 independent director. b) 1/3rd of its total strength or 4 directors, whichever is higher, including at least 1 independent director. c) 1/3rd of its total strength or 3 directors, whichever is higher, including at least 2 independent director. d) 1/3rd of its total strength or 3 directors, whichever is higher, including at least 1 nonexecutive director.</p>	
AC.6	M19M
<p>High Limited is a public limited company engaged in the manufacturing of watches. The company has appointed CA. Eshaan as statutory auditor of the company for the year 2018-19. On verification of the composition of Board of Directors of the company, the auditor observed that during the reporting period in one of the board meeting the chairman was non-executive director and less than one-third of the Board comprised of Independent Directors. The auditor wants to examine the effect of changes in the composition of the Board and/or its chairman and its impact on compliance throughout the reporting period. But the management restricts the auditor from examining the same. Whether the auditor has right to examine the effect of changes in composition of board?</p>	

	<ul style="list-style-type: none"> a) The auditor has no right to verify the composition of Board and examine the effect of changes in the composition since it is not related with preparation of financial statements. b) The auditor should verify the composition of Board and examine its impact on compliance throughout the reporting period as a part of certifying compliance with the requirements of corporate governance. c) The management's act is void, as the auditor is appointed by Board of Directors only so the auditor should necessarily verify the composition of Board and its impact on compliance. d) Since High Limited is a public limited company, its Board composition has to be compulsorily verified by the auditor. 	
AC.7		N19M
	The auditor should ensure that the board of directors of the top 1000 (2000 from April 20) listed entities shall comprise of –	
	<ul style="list-style-type: none"> a) Not less than 7 directors. b) Not less than 4 directors. c) Not less than 6 directors. d) Not less than 2 directors 	
AC.8		SM-22
	XYZ Ltd. is a Public Limited Company engaged in the manufacturing of TMT Bars. M/s. UV & Associates are the statutory auditors of XYZ Ltd. for the Financial Year 2021-22. The company is listed on National Stock Exchange. CA Udhav, the engagement partner is considering the requirements with respect to Regulation 27 and Schedule II (LODR) for corporate governance compliance of XYZ Ltd. Which of the following is correct in this regard?	
	<ul style="list-style-type: none"> a) XYZ Ltd. shall submit a quarterly compliance report on corporate governance in the format as specified by its Board from time to time to NSE within 21 days from end of each quarter. The report shall be signed either by the Compliance Officer or the Chief Executive Officer of XYZ Ltd. b) XYZ Ltd. shall submit a monthly compliance report on corporate governance in the format as specified by its Board from time to time to NSE within 21 days from the end of the month. The report shall be signed either by the General Manager of the accounts department of XYZ Ltd. c) XYZ Ltd. shall submit a quarterly compliance report on corporate governance in the format as specified by its Board from time to time to NSE within 30 days from the close of quarter. The report shall be signed either by the Compliance Officer or the Chief Executive Officer of XYZ Ltd. d) XYZ Ltd. shall submit the annual compliance report on corporate governance in the format as specified by its Board from time to time to NSE within 30 days from the year end. The report shall be signed either by the General Manager of the Accounts Department of the Company. 	
AC.9		N20M
	"As per Regulation 20 and Part D of Schedule II of SEBI (LODR) Regulations, 2015, who among the following shall be appointed as Chairman of Stakeholder Relationship Committee?"	
	<ul style="list-style-type: none"> a) Small Shareholder Director b) Whole time director c) Any of the Executive Director d) Any of the Non-Executive Director" 	

AC.10	N21M/SM-22
	<p>RST Ltd. has a Net Worth of ` 80 crore and a market capitalisation of `350 crore. However, its ranking is 800 among all the Listed Companies based on the said capital for the previous year. It has a subsidiary Company PQR Pvt Ltd. whose net worth is ` 25 crore. Whether RST Ltd. and PQR Ltd. are required to undertake Secretarial Audit?</p>
	<p>(a) Both RST Ltd. and PQR Ltd. shall undertake Secretarial Audit. (b) Only RST Ltd., being a listed entity, is required to undertake Secretarial Audit. (c) None of them are required to undertake Secretarial Audit since they are not among the top 500 Companies on the basis of Market Capitalisation. (d) Only RST Ltd. shall undertake Secretarial Audit since it is among the top 1,000 Companies on the basis of Market Capitalisation.</p>
AC.11	M22M
	<p>M/s Shiva & Associates have been appointed as statutory auditors of Kailash Ltd. which is the company registered under Section 8 of the Companies Act 2013. During the course of aud it, CA Shiva noticed that the Board of Directors have held their meetings only twice, in the financial year under audit. How should CA Shiva deal with the same in the compliance certificate to be issued by him?</p>
	<p>(a) CA Shiva should give an adverse statement stating that the meeting of board of directors were held only twice as against the minimum requirement of 4 meetings of financial year. (b) CA Shiva need not mention regarding the same in the compliance certificate as there is no minimum requirement of meeting of board of directors in case of companies registered under Section 8. (c) Kailash Ltd. being a company registered under Section 8 of the Companies Act 2013 is exempt from obtaining compliance certificate from the statutory auditors. (d) Kailash Ltd. is correct in conducting two meeting of board of directors therefore, CA Shiva should not give an adverse or qualified statement in this regard</p>

**AUDIT
COMMITTEE
AND
CORPORATE
GOVERNANCE**

AC.1	b
AC.3	a
AC.4	c
AC.5	a
AC.6	b
AC.7	c
AC.8	d
AC.9	d
AC.10	a
AC.11	d

Ch 8. AUDIT OF CONSOLIDATED FINANCIAL STATEMENTS (CFS)

CFS.1	SM-22
<p>Advik Ltd is an unlisted public company. The company acquired few companies in the last 3-4 years which have been assessed as its subsidiaries/ associates/ joint ventures (hereinafter jointly called as 'components'). The company prepares its condensed consolidated financial statements every quarter to review the performance of the group. In the past years, the company used to get the financials of its components reviewed/ audited on a quarterly basis. AJ & Co LLP is the statutory auditor of parent company and KSH & Associates is the statutory auditor of all the components. Quarterly condensed consolidated financial statements of the group are reviewed by the statutory auditors as per the terms of the engagement letter. AJ & Co LLP has communicated to Advik Ltd that in line with the requirements of the Companies Act 2013, it would also be required to undertake audit/ limited review of all the components which would be consolidated with those of Advik Ltd and for which KSH & Associates are the statutory auditors currently. Management is not agreeing with the same as they don't want to change KSH & Associates as auditors of the components and the requirement mentioned by AJ & Co LLP would lead to duplication of work of auditors as well as the management. Please advise.</p>	<p>a) In an audit/review of consolidated financial statements (whether condensed or complete), the principal auditor is required to perform various procedures in accordance with SA 600, Using the work of another auditor and hence the requirement of auditor is valid.</p> <p>b) In an audit/review of consolidated financial statements (whether condensed or complete), the principal auditor is required to perform various procedures in accordance with the requirements of the Companies Accounts and Audit Rules 2014 and hence the requirement of auditor is valid.</p> <p>c) In an audit/review of consolidated financial statements (whether condensed or complete), the principal auditor is not required to re-perform audit/ limited review of the components and hence the requirement of auditor is not correct.</p> <p>d) Management and the auditor need to decide this mutually as this is based on the contractual arrangement between them.</p>
CFS.2	SM-22
<p>KB Ltd is engaged in the business of construction. It has multiple subsidiaries and associates in India. The company acquired PPP Gmbh in Germany on 1 February 2021. The company also obtained control in PPP Gmbh on the same date. Its investment in PPP Gmbh was of a huge amount. The company has been preparing its CFS over the last few years and this has also become a matter of concern for the company for the year ended 31 March 2021. The management is of the view that consolidation of PPP Gmbh would not be required in CFS for the year ended 31 March 2021 because this is the first year of acquisition. However, the auditors have not been agreeing for the same. The timeline of submission of audited financial statements is due in few months' time. In the meantime, the management moved on the consolidation of PPP Gmbh taking audited financial statements of PPP Gmbh which are available in the GAAP of its local country and GAAP conversion adjustments from its local GAAP to Indian GAAP have been made by the parent company. GAAP conversion adjustments are significant at CFS level. In the meantime, the management has also been consulting whether the consolidation would be required or not also considering the fact that comparative figures in case of PPP Gmbh would not be available. Further the auditors have also raised observations regarding the GAAP conversion adjustments over which management has a disagreement. As per the management the auditors are not required to comment on GAAP adjustments because audited financial statements of PPP Gmbh have been given to the auditors. Please help to resolve these matters.</p>	<p>a) Consolidation of PPP Gmbh should be done but GAAP conversion adjustments are not required to be audited.</p> <p>b) Consolidation of PPP Gmbh should not be done and accordingly, GAAP conversion adjustments would not arise.</p> <p>c) Consolidation of PPP Gmbh should be done, and GAAP conversion adjustments are also</p>

required to be audited.

- d) Consolidation of PPP GmbH is a choice of management as the accounting standard does not mandate this. However, in case it is done then the GAAP conversion adjustments would be required to be audited.

CFS.3	SM-22
<p>VDN Ltd is a medium-sized company engaged in the business of retail. It has two subsidiaries and one joint venture. Both the subsidiaries are larger in size as compared to the parent company. The accounting policies of the parent company, its subsidiaries and joint venture were same. However, during the year ended 31 March 2021, one of its subsidiary, SMA Pvt Ltd changed the method of depreciation of Property, plant and equipment (PPE) to written down value method which is different from the method followed by the parent company i.e., Straight line method. Further this subsidiary also changed the method of valuation from FIFO to Weighted average method which has become different from parent as the parent follows FIFO method. These changes were made by the subsidiary because it reflected the better picture of its standalone financial statements. Now for the purpose of CFS, the auditors have asked the management of parent company to ensure that accounting policies of the group companies should align with that of parent in line with the requirements of accounting standard. But the management of parent and subsidiary company believe that out of three group companies other than parent, only one group company requires this change for the purpose of consolidation and the same should be ignored by the auditors. Please suggest.</p>	
<p>a) The view of management is correct. b) For CFS, method of depreciation of SMA Pvt Ltd may continue to be different, however, method of valuation of inventory should be aligned with that of the parent. c) For CFS, method of valuation of inventory of SMA Pvt Ltd may continue to be different, however, method of depreciation should be aligned with that of the parent. d) The auditor should get these changes made in the standalone financial statements of SMA Pvt Ltd.</p>	

CFS.4	S-1/SM-22
<p>AJ Private Ltd is engaged in the business of retail having annual turnover of Rs. 1,800 crores. The company has a plan to get listed on Bombay Stock Exchange next year. The company has 3 associates, 4 subsidiaries, and 1 joint venture. The company prepares its consolidated financial statements on a quarterly basis for the purpose for internal purposes. The quarterly financials are reviewed by the statutory auditors of the company. The group companies of the parent company have increased in terms of their size looking at the total assets and revenue of the group. For the purpose of audit of consolidated financial statements for the year ended 31 March 2021, management has request the statutory auditors that it would be able to provide management certified accounts of the joint venture as its audit would not get completed on time and even without joint venture, the auditors would be able to cover 75% of the total assets of the group at consolidated level. However, the statutory auditors are insisting that they need to cover at least 80% of the total assets of the group at consolidated level as per the requirements of the Auditing Standards and for that financials of the joint venture should also be audited. Please advise.</p>	
<p>a) Auditors should accept the management certified accounts of joint venture. b) Auditors cannot accept management certified accounts of joint venture and should report the matter to the Registrar of Companies. c) Auditors cannot accept management certified accounts of joint venture and should report the matter to the Securities and Exchange Board of India, considering the plan to get listed next year. d) Auditors should accept management certified accounts of joint venture provided the revenue of the joint venture is less than 10% of the total revenue of the group.</p>	

CFS.5	S-1
	<p>Current period adjustments are those adjustments that are made:</p> <ul style="list-style-type: none"> a) Only on the first occasion of the preparation and presentation of consolidated financial statements b) Only on the first occasion of the audit of consolidated financial statements c) In the accounting period for which the consolidation of financial statements is done d) None of the above.
CFS.6	S-2
	<p>M/s ABC & Co LLP has been appointed as the statutory auditors of WEF Ltd. Previous auditor of WEF Ltd was M/s LMN & Co LLP. WEF Ltd is subsidiary of WEF Holding Ltd, UK. For the purpose of consolidation, WEF Ltd is required to send financial information of the company for the year in the Reporting package comprising of balance sheet, statement of profit and loss, statement of cash flow and notes to accounts. Since WEF Holding Ltd has many group companies across the globe, to ensure consistency in reporting of numbers under various heads, a standard reporting package is used by all the group companies. The group companies do not have any provision to change the groupings/ classifications which need to be reported as per the Group accounting manual which is prepared as per the Group's accounting policies. Group follows IFRS. ABC & Co LLP is also required to audit the reporting package of WEF Ltd as per IFRS. During the course of audit, the auditor observed that some classifications are not in line with IFRS, however, due to the limitation of the reporting package no such corrections can be made. How should the auditor deal with this?</p> <ul style="list-style-type: none"> a) Since all the classifications are in line with the requirements of the Group as per the Reporting package, the auditor need not change anything and should issue clean report. b) Since all the classifications are in line with the requirements of the Group as per the Reporting package, the auditor need not change anything and should issue clean report. However, the auditor may also include a note separately in respect of the corrections required. c) Since all the classifications are in line with the requirements of the Group as per the Reporting package, the auditor cannot change anything. However, the auditor is required to issue to report as per IFRS wherein the classifications are wrong and hence the auditor should issue qualified report if the amount is material. d) Since all the classifications are in line with the requirements of the Group as per the Reporting package, the auditor need not change anything. However, the auditor should issue his report as per the Group accounting manual instead of IFRS.
CFS.7	S-2
	<p>The auditor is required to audit a complete set of annual financial statements for the year ended 31 March 2018 prepared under Ind AS by the management solely for preparation of consolidated financial statements of the holding company. Is the auditor required to include 'Other Legal and Regulatory Requirements' to comment on matters such as maintenance of proper books of accounts, compliance with accounting standards etc. in the audit report?</p> <ul style="list-style-type: none"> a) Since the auditor is required to audit complete set of annual financial statements for the year ended 31 March 2018 prepared under Ind AS, it will be mandatory for the auditor to include 'Other Legal and Regulatory Requirements' in his audit report. b) The audit report is not issued pursuant to requirement of section 143 and hence 'Other Legal and Regulatory Requirements' is not required to be included in the audit report. c) The audit report is not issued pursuant to requirement of section 143 and hence some of the requirements related to 'Other Legal and Regulatory Requirements' may be included in the audit report as per the discretion of the management of the Company. d) The auditor may include 'Other Legal and Regulatory Requirements' in the audit report but he would need approval of the Board of Directors for doing so.

CFS.8	M19R/M23M
	<p>IRC Ltd is in the business of construction and infrastructure. The company is listed in India having an annual turnover of INR 2500 crores. The company has various projects offices/ operations in India and outside India. The functional currency of the company and its project offices is INR. The company has five joint ventures and various jointly controlled operations. The company has been audited by Luthra & Associates, a firm of Chartered Accountants, since beginning. During the year ended 31 March 2018, new auditors were appointed as the statutory auditors of the company for the audit of the financial statements for the year ended 31 March 2018. New statutory auditors have raised various points related to the consolidation procedures followed by the company. Management did not agree to the observations of the auditors as they have been following this since many years now and there was no observation of previous auditors in respect of the same. Auditors have highlighted a point that joint ventures have been consolidated by the company in its standalone financial statements. However, management has an argument that those are in the nature of its operations and hence to reflect the true and fair view it would be appropriate to consolidate the same in the standalone financial statements. Please advise as auditors how would you deal with this matter.</p> <ol style="list-style-type: none"> Since the matter is related to consolidation, which is more relevant for consolidated financial statements, hence no reporting in respect of this matter would be required in the auditor's report for the year ended 31 March 2018. Auditor should look at the materiality and conservatism principle. Company has included extra information in the financials which can be considered by the auditors and basis that clean audit report should be given. Management should restate the financials to adjust the error related to consolidation of joint ventures in standalone financial statements. Otherwise, auditor may modify his opinion on current year's financial statements considering the materiality. As per the requirements of accounting standard, joint venture if consolidated in standalone financial statements should not be consolidated again in the consolidated financial statements. Basis that this point should be dropped by the auditor.
CFS.10	M19R
	<p>WCO Private Ltd is a joint venture of WCO Gmbh and MSON Ltd. WCO Gmbh is a company based out of Germany and is also listed in Germany. WCO Gmbh prepares its financial statements as per IFRS. MSON Ltd is a company based out of India and is also listed in India. MSON Ltd prepares its financial statements as per Ind AS. For the purpose of reporting of financial information to WCO Gmbh and MSON Ltd for consolidation purposes, WCO Private Ltd uses reporting package (which comprises of balance sheet, profit and loss and other notes to accounts). WCO Private Ltd prepares its financial statements as per Ind AS. WCO Private Ltd has taken useful life of some fixed assets in its Ind AS financial statements based on their useful lives which is different from the useful lives of similar nature fixed assets taken by WCO Gmbh (in line with their accounting policies). The reporting package of WCO Private Ltd is audited before reporting to WCO Gmbh. The auditor audits the reporting package which is prepared in line with the Group accounting policies of WCO Gmbh and mentions in his report that the reporting package has been prepared as per the Group accounting policies of WCO Gmbh. WCO Private Ltd makes an adjustment for changes in useful lives in the reporting package on the basis of Group accounting policies of WCO Gmbh. The auditor has asked the management to take same useful lives of fixed assets in the reporting package which have also been taken by them in its Ind AS financial statements. Management has not agreed with the view of the auditor. Please suggest the right course of action.</p> <ol style="list-style-type: none"> Position taken by the management is correct. Position suggested by the auditor is correct and if the management does not agree then auditor may have to modify his report on the basis of materiality. The matter relates to an estimate (i.e., useful life) which may be subject to changes under different GAAPs and hence auditor should ignore this point. The report would be for special purpose which should always be a clean report

CFS.11	M19M
<p>Brown Ltd is a holding company with two subsidiaries Black Ltd and White Ltd. You have been given the task of covering the valuation of non-current tangible assets in the consolidated financial statements. You note that Black Ltd and Brown Ltd. adopt straight line method of depreciation for its assets whereas White Ltd, follows written down method for calculating the depreciation. Which of the following adjustment would be considered as correct in respect of the consolidated financial statements preparation?</p>	
<p>a) White Ltd is required to depreciate the assets adopting straight line method of depreciation which is the method adopted by the holding company.</p> <p>b) Brown Ltd is required to make suitable adjustments as to the depreciation charged by White Ltd, at the time of consolidation.</p> <p>c) Brown Ltd and Black Ltd are required to depreciate the assets adopting written down value as to facilitate the harmonization of accounting policies.</p> <p>d) No adjustment is required as there can be different methods of calculation of depreciation for its assets for the group companies</p>	
CFS.12	M19M
<p>NT 22 Group is a large group comprising of 22 subsidiary companies, 14 associate companies and 19 joint ventures. NT Ltd. is the holding company which is also listed on Bombay Stock Exchange and New York Stock Exchange. The Group prepares its consolidated financial statements every quarter for various reporting requirements – SEBI (Stock and Exchange Board of India), Stock Exchanges, Registrar of Companies in India and others. The turnover of the Group is INR 15,000 crores and many of its components have significant operations at standalone level.</p> <p>The Group is audited by one audit firm, Seema & Co LLP. For the purpose of group audit of the current year, the auditors have considered performing testing of journal entries across the group to address the significant risk, however, the auditors are facing challenges to perform this audit procedure across the group because of the volume and limitation of resources. Please suggest the correct options in respect of this matter.</p>	
<p>a) The Group auditors have a choice to test journal entries of the components which is also backed up by the auditing standards.</p> <p>b) The Group auditors must test journal entries of all components.</p> <p>c) The Group auditors need not test journal entries of components requiring analytical response at group level.</p> <p>d) The Group auditors need not test journal entries of components scoped with comprehensive approach.</p>	
CFS.13	N21M/SM-22/M22M
<p>Rimmi Ltd. was set up initially as a private limited company. Subsequently, it got converted into a public company. The company's management has plans of expansion, but the business was not growing in an organic manner. Therefore, the management decided to acquire the competitors. During the financial year ended 31 March 2021, the company acquired two companies in India and France in September 2020 and January 2021 respectively. The company controls both of these companies as per the criteria's laid down in the Companies Act 2013 as well as the applicable accounting standards. The management started discussions with the auditors regarding the audit wherein it was also pointed out by the auditors that the management should also prepare consolidated financial statements (CFS), if they want. Management needs your advice on the same.</p>	
<p>a) Management must prepare the CFS as per the requirements of the Companies Act, 2013.</p> <p>b) Management has a choice not to prepare CFS but should go for that considering that its true performance and financial position can then be demonstrated.</p> <p>c) Management could have prepared CFS if the acquired companies would have completed at least one year post acquisition.</p> <p>d) Management must prepare CFS, but it should include only the company acquired in India.</p>	

CFS.14	SM-22
	<p>BCO Private Limited is operating in India for the last 15 years. It has three group companies - one subsidiary in India and the other two in Ireland and France. All these subsidiaries were acquired one by one and investments were made in these companies gradually i.e. initially control was not obtained and after investment for some period, control was obtained. The statutory auditors have evaluated that all the group companies are significant for the purpose of audit of consolidated financial statements. During the year ended 31 March 2021, the audited financial statements of all the components are available except for French company whose audit got delayed and would not get completed before the release date of CFS of parent company. For the purpose of consolidation, the parent company has provided the audited financial statements of other components. Please suggest what can be the possible situation in respect of financial statements of French company for the purpose of consolidation for the purpose of audit of CFS.</p>
	<ul style="list-style-type: none"> a) Since the audit of French company is in progress, its financial statements subject to audit can be considered by auditor of parent company and audited signed financials can be given to auditors even after release of audited CFS as this is matter of documentation only. b) The management should give management accounts to the auditors of CFS and auditor can mention the same point in other matters paragraph in his audit report which is an acceptable approach. c) Auditor should get the financial statements of French company excluded from CFS. d) If the auditor does not receive audited financial statements of French company, he should modify his audit report.
CFS.15	SM-22
	<p>B Limited controls entity C Limited (75%) and entity A Limited (an investment company). Entity B Limited reduced the control of entity C Limited from 75% to 60%. With regard to that certain adjustments were made to account for the change in the shareholding of entity C Limited which is consolidated. These adjustments are known as:</p>
	<ul style="list-style-type: none"> a) Memorandum adjustments. b) Current period consolidation adjustments. c) Permanent consolidation adjustments. d) Temporary period consolidation adjustments.

**AUDIT OF
CONSOLIDATED
FINANCIAL
STATEMENTS**

CFS.1	c
CFS.2	c
CFS.3	b
CFS.4	a
CFS.5	c
CFS.6	c
CFS.7	b
CFS.8	c
CFS.10	a
CFS.11	d
CFS.12	c
CFS.13	a
CFS.14	d
CFS.15	c

Ch 09 AUDITS OF BANKS

B.1	SM-22
	<p>The Chanakya Bank Ltd. was having 150 branches all over India by the year ending 31st March 2019. Ten branches of the bank were already covered for concurrent audit and the Bank's Audit Committee decided to include the below mentioned branches for concurrent audit from the year 2019-20.</p> <ol style="list-style-type: none"> 1. Banaras branch which deals in treasury functions like investments and inter bank borrowings but not in bill re-discounting. 2. Allahabad branch which started foreign exchange business from February 2019. 3. Rae Bareilly branches whose aggregate deposits were more than 35% of the aggregate deposits of the bank. <p>Sista and Chartered Accountants were appointed as the stock auditors by the Bank's audit committee for five branches for year 2019-20. The Bank's management appointed and fixed the remuneration of Sista and Chartered Accountants as the statutory auditors also for the year 2019-20, for the same five branches for which they were given the assignment of stock audit.</p> <p>At the Kanpur branch of the bank there were high value cash deposits in one of the current account from April 2019. Your firm has been appointed as the concurrent auditors for the Kanpur branch for the year 2019-20. The cash collected by the branch was remitted to currency chest on the very same day but, during the concurrent audit for the month of April 2019 itself the auditor noticed that the branch has not filed the requests sent via e-mail to currency chest for the cash remittance.</p> <p>Whether the decision of audit committee to include the three branches mentioned in above paragraph for concurrent audit is as per RBI Guidelines?</p> <ol style="list-style-type: none"> a) The decision of audit committee is valid as according to RBI Guidelines, all the three branches fulfil the criteria for compulsory concurrent audit. b) Banaras and Allahabad branch falls under the compulsory audit criteria as per RBI Guidelines; however Rae Bareilly branch whose aggregate deposits are less than 50% of the aggregate deposits of the Bank is not required to be compulsorily covered for concurrent audit. c) As Banaras branch doesn't deal in bill re-discounting, it is not required to be covered under concurrent audit. Allahabad and Rae Bareilly branch are compulsorily required to be covered under concurrent audit as per RBI Guidelines. d) Allahabad branch has started foreign exchange business in February 2019 and as per RBI Guidelines only the branches dealing in Foreign exchange business from more than three years are covered under concurrent audit. Therefore, Allahabad branch is not covered under compulsory concurrent audit criteria as per RBI Guidelines, but the Banaras and Rae Bareilly branch are covered under compulsory concurrent audit criteria.
B.2	SM-22
	<p>PFS Bank was engaged in the business of providing Portfolio Management Services to its customers, for which it took prior approval from RBI. Your firm has been appointed as the statutory auditors of the Bank's financial statements for the year 2020-21. Your senior has instructed you to verify the transactions of Portfolio Management Services (PMS). While verifying the transactions you noticed that the bank has not prepared separate record for PMS transactions from the Bank's own investments. As a statutory auditor what will be your decision for verification of PMS transactions?</p> <ol style="list-style-type: none"> a) It is not necessary to maintain separate records for PMS clients from Bank's own investments, so the auditor can verify the PMS transactions as part of investment verification for Bank's financial statements and submit the audit report accordingly. b) As per RBI guidelines PMS investments need to be audited separately by the external auditors and the auditors are required to give a certificate separately for the same. So, in the above case the auditor should not verify the PMS transactions till the Bank segregates the transactions from its own investments.

	<p>c) The auditor can give a qualified opinion in his audit report on the financial statements of the Bank and report the matter in special purpose certificate.</p> <p>d) Auditor should verify that PMS funds are not utilized for lending, inter-bank deposits or deposits to corporate bodies and bills re-discounting only. So, whether the PMS transactions are recorded separately or not will not matter for the auditor.</p>
B.3	SM-22
	<p>How the discrepancy of not filing the details of cash remittances to currency chest by Kanpur branch of the bank should be dealt by the concurrent auditor in his audit report?.</p> <p>a) The auditor should report the matter as a major irregularity in his audit report to the management.</p> <p>b) The auditor should verify the details from e-mail sent to currency chest and close the matter.</p> <p>c) As it is a minor irregularity the auditor can ignore the same.</p> <p>d) The auditor should discuss the importance of filing the copy of e-mail sent for cash remittance with the Branch Manager and check for its compliance in the next audit period.</p>
B.6	SM-22
	<p>You are the internal auditor of FCD Bank Limited for the year 2020-21 and the bank maintains all the data on computer. You are instructed by your senior to verify the loan against fixed deposits of the Navi Mumbai branch. As per the scope of audit, you need to ensure that proper lien has been marked on all the fixed deposits against which loan has been issued. Which of the following procedure you will follow for the same:</p> <p>a) Ensure that all the fixed deposit receipts are attached along with the approved loan documents.</p> <p>b) Ensure that all the fixed deposit receipts, against which the loan has been sanctioned, are discharged in favour of bank and check that the lien is marked in the computer software.</p> <p>c) Discuss the process followed for lien marking with the branch manager.</p> <p>d) Ensure that all the fixed deposit receipts, against which the loan has been sanctioned, are discharged in favour of bank, check that the lien is marked in the computer software and the fixed deposit should be kept separately with the branch manager.</p>
B.7	SM-22
	<p>You have been asked by your senior to verify the high value cash deposits at the Kanpur branch. What parameters/ documents will you verify as the concurrent auditor of the branch?</p> <p>a) Concurrent auditor has to verify the details of cash remittance to Currency Chest only.</p> <p>b) You need to verify the KYC documents of the customer/s and the reason for high value cash deposit in the account like nature of business or sale of property etc.</p> <p>c) Verify the KYC documents of the account in which cash is deposited; verify the reason for high value cash deposit in the account like nature of business/ transaction etc.; verify the discrepancies found in the cash of the customer/s, if any and ensure that the records of Currency Chest remittance is maintained properly.</p> <p>d) As a concurrent auditor you need to verify the reason of regular cash deposit in the account/s and the nature of discrepancies, if any, found in cash deposited by the customer/s.</p>
B.8	SM-22
	<p>Your firm has been appointed statutory auditor by a Nationalised Bank for the year 2020-21. Your senior advised you to check all the standard assets shown in the balance sheet as on 31st March 2021. While verification you observed that one of the accounts was regularised on 28th March 2021, for which the interest and instalment amount was overdue from the quarter ending 30th September 2020. The account was regularised after the repayment of overdue interest and instalment amounts was done on 26th March 2021. Only the last day of the financial year was reckoned as the date of account becoming NPA by the Bank. As a statutory auditor will you agree with the Bank's policy?</p>

- a) As the interest charged in the account was overdue for more than 90days from the end of quarter, it should be classified as NPA and should be considered as substandard asset for the balance sheet as on 31st March 2021.
- b) As the overdue interest and instalment amount was paid before the balance sheet date there is no reason to classify the account as NPA.
- c) The auditor should not agree with the Bank's policy to regularize the account before balance sheet date as overdue interest indicates more than normal risk attached to the business.
- d) Bank can regularize the account before balance sheet date but should ensure that the amount has been paid through genuine resources and not by sanction of additional facilities, and the account remains in order subsequently.

B.9 **M19R/M20M/M23M**

The Advances Bank Ltd. has sanctioned overdraft limit of Rs. 44 crore to ASG Ltd. on the working capital of the company as on 31st March 2015. As per bank norms the drawing power in the overdraft account need to be reviewed on quarterly basis as per the audited stock statement of the company. As a central statutory auditor for the year 2016-17, while verifying the advances for the year ending 31st March 2017, you noticed that the bank has not obtained the stock statement of ASG Ltd. for the two quarters ending 31st December 2016 and 31st March 2017 and no provision of NPA has been made for this account in the financial statements for the year 2016-17. What will be your decision as a central statutory auditor?

- a) Classify the borrower's account as NPA as the borrower's financial position cannot be determined due to non-submission of stock statement.
- b) Instruct the bank to obtain the audited stock statement for both the quarters and review the credit limit accordingly.
- c) As per bank norms the drawing power need to be determined on the basis of stock statement and it was more than three months old as on 31st March 2017, so the outstanding in the account will be deemed as irregular.
- d) You should give a qualificatory note in the audit report as per SA700.

B.10 **SM-22/M23R**

XYZ bank had an NPA account of M/s Glenpark showing recoverable amount of Rs. 55 lakh in the books. It sold the NPA for Rs. 56 lakh. Please select as to which of the following options is the correct accounting:

- a) Credit the excess of Rs. 1 lakh to profit on sale of assets.
- b) Let the amount remain in Glenpark account.
- c) Credit the excess of Rs. 1 lakh to Provision for loss on sale of NPAs.
- d) Return Rs. 1 lakh to the party purchasing the NPA.

B.11 **M21M/SM-22**

A bank has some non-interest-bearing staff advances. In the Balance Sheet these should be presented under:

- a) 'Term loans' under 'Advances'.
- b) 'Cash Credits, Overdrafts and Loans Repayable on Demand' under 'Advances'.
- c) 'Advances in India – Others' under 'Advances' Schedule.
- d) 'Others' under 'Other assets'.

B.12	M21M/M22M
	While examining the computation of Demand and Time liabilities which of the following is to be included in liabilities:
	<ul style="list-style-type: none"> a) Part amounts of recoveries from the borrowers in respect of debts considered bad and doubtful of recovery. b) Amounts received in Indian Currency against import bills and held in sundry deposits pending receipts of final rates. c) Net credit balance in branch adjustment accounts including these relating to foreign branches. d) Margins held and kept in sundry deposits for funded facilities.
B.13	N22M
	Which of the following statements is INCORRECT?
	<ul style="list-style-type: none"> (a) Inoperative saving and current accounts are a fraud prone area. (b) Debit balances in current account are reduced from aggregate demand deposits in balance sheet of a bank. (c) Interest accrued but not due on deposits is shown separately under head "Other Liabilities and provisions." (d) FCNR deposits are in designated foreign currencies only
B.14	N22M
	Which of the following statements is correct regarding submission of Statutory branch audit report and LFAR of branch signed by the branch Auditor CA. Mahaveer?
	<ul style="list-style-type: none"> (a) Statutory branch audit report is to be submitted to Statutory Central auditors and LFAR is to be submitted to head office of bank directly. (b) Statutory branch audit report is to be submitted to Statutory Central auditors and LFAR is to be submitted to RBI directly. (c) Statutory branch audit report as well as LFAR are to be submitted to Statutory Central auditors. (d) Statutory branch audit report as well as LFAR are to be submitted to head office directly as appointment was made by Head office.
B.15	N21M
	Siddha and Associates, Chartered Accountants has been appointed as the branch statutory auditor of CRR Bank. Auditor identified cases of Advances where primary security is not adequate to cover the margin as stipulated by the Loan covenants. Further no documentation exists to confirm that the collateral security is unencumbered. For the advances not having adequate security, the auditor should:
	<ul style="list-style-type: none"> (a) Mention the cases in the Long Form Audit report only. (b) Not mention the cases in the Long Form Audit report. (c) Document the cases and discuss with branch management. (d) Consider to downgrade the asset as per RBI prudential norms.

**AUDITS OF
BANKS**

B.1	b
B.2	b
B.3	d
B.6	b
B.7	c
B.8	d
B.9	c
B.10	c
B.11	d
B.12	c
B.13	b
B.14	c
B.15	d

Ch 10 AUDIT OF INSURANCE COMPANIES

IC.1	SM-22
<p>An Indian insurance company in the name of Trust Life Limited was carrying on life insurance business with paid-up capital of ` 250 crores. The Company appointed Mr. Vineet, as its statutory auditor for the year 2018-19. The auditor verified the investments of the company in terms of title, acquisition or disposal, safeguard etc. In the financial statements of the company the investments were classified in terms of portfolio maintained with central, state or any other notified investment. The auditor mentioned in the report that the company has complied with the guidelines of the IRDAI. The shareholders raised an objection that the audit report is incomplete as the financial statements don't give the classification of investments as percentage of total investments in Housing Projects or Infrastructural Projects as per IRDA (Investment) Regulations. Is it necessary for the auditor to verify and give the details in audit report for investments made in Housing or Infrastructural Projects?</p>	
<p>a) As per IRDA (Investment) Regulations if the auditor has classified the investments made by the company on the basis of investments with central, state or any other notified investment, there is no need to verify in terms of Housing or Infrastructural Projects.</p> <p>b) The auditor has to verify only the valuation of investments and appropriateness of the method of accounting policy followed.</p> <p>c) The auditor is required to give classification of investments on the basis of investments in Housing Projects or Infrastructural Projects as, according to IRDAI guidelines the insurance company carrying on life insurance business shall invest a minimum of 5% of investment Assets in Housing Project.</p> <p>d) The auditor is required to ensure compliance with the guidelines of IRDAI and accounting policy followed for valuation of investments. As the auditor mentioned in the report that the company has complied with the guidelines of the IRDAI it is complete and no other disclosure is required from the auditor.</p>	
IC.2	SM-22
<p>Bajaj Allianz General Insurance Ltd. agreed to insure a large commercial client. Due to the size of this client's operations, there is the potential that it could suffer a substantial loss. It would be financially difficult for Bajaj Allianz to pay the entire claim itself. To spread this risk, Bajaj Allianz contacted Bharti AXA General Insurance to request that it cover a portion of the risk. Bharti AXA General Insurance agreed, but only on the condition that it receive a portion of the premium the client has paid to Bajaj Allianz General Insurance Ltd. The term that best describes this scenario is</p>	
<p>a) retention.</p> <p>b) reinsurance.</p> <p>c) loadings.</p> <p>d) casualty insurance.</p>	
IC.3	SM-22
<p>BIC Ltd is an insurance company looking to expand their operations in the Northern India. The company's operations have been considerable in the Southern India and its head office is also based at Chennai. The company had strong processes and controls from its starting days and have appointed consultants over the years to ensure their operative effectiveness at various points of time. Shivam Ltd exercises significant influence over BIC Ltd and the financial statements of Shivam Ltd are prepared as per Ind AS (Indian Accounting Standards) and audited by Shubham & Associates. Advil & Associates are the statutory auditors of BIC Ltd. For the financial year ended 31 March 2021, BIC Ltd also requested Advik & Associates to certify the Investment Risk Management Systems and Processes of BIC Ltd as per discussions with Shivam Ltd. Advik& Associates completed this task and also submitted the required certificate which the management has submitted to the required authorities. After submission, BIC Ltd received notice from the Insurance Regulatory and Development Authority of India (IRDAI) that the company has not</p>	

	<p>complied the provisions in respect of submission of certificate. The company discussed this matter with Shivam Ltd and would also like to have your views on this.</p> <p>a) BIC Ltd, being an associate of a company and because of the fact that Ind AS is applicable on Shivam Ltd, should have appointed another firm of Chartered Accountants along with Advik & Associates for this certification work.</p> <p>b) BIC Ltd should have got this certification work done from their internal auditors as per the required provisions of IRDAI.</p> <p>c) BIC Ltd should not have got this certification work done from their statutory auditors.</p> <p>d) The certification work should have been done by Shubham & Associates.</p>	
IC.4	<p style="text-align: right;">SM-22</p> <p>KIC Ltd is a company engaged in the business of general insurance and has been in existence for over 15 years. The company has a subsidiary company, PIC Ltd, which is also engaged in the business of insurance other than general insurance.</p> <p>The previous statutory auditors of PIC Ltd have completed their tenure as an auditor and accordingly have resigned and the management of PIC Ltd is looking for new statutory auditors.</p> <p>KB & Associates, a firm of Chartered Accountants, have vast experience of audit of insurance companies and would like to get appointed as auditor of PIC Ltd. KB & Associates is a large firm and have also employed experts – engineers, valuers, lawyers for various client services. The firm is evaluating as to what should be the criteria for get appointed as auditors of PIC Ltd because in the past they have audited only the holding companies and considering a subsidiary company for the first time.</p> <p>In this context, please help the firm by answering which of the following options would be correct?</p> <p>a) KB & Associates, a firm of Chartered Accountants, should be appointed by the Board of Directors of PIC Ltd and should ensure that they don't take up audit of more than 2 insurance companies.</p> <p>b) KB & Associates can take up the audit if the firm is appointed by the Comptroller and Auditor General of India and should ensure that they don't take up audit of more than 3 insurance companies.</p> <p>c) KB & Associates cannot take audit of PIC Ltd because they have employed experts which is not permitted by the IRDAI Guidelines.</p> <p>d) KB & Associates can take up audit of PIC Ltd by ensuring that they are eligible to be appointed as per the criteria laid down in the Companies Act 2013 for audit of subsidiary companies and they would need to submit a certificate in this respect to the ICAI.</p>	
IC.5	<p style="text-align: right;">SM-22</p> <p>KJLIC Ltd is a life insurance company. The company is based at Nagpur and has offices across Western India. KJ & Associates are the statutory auditors of this company. At the time of audit of this company, areas like cash and bank, receipts and payment and fixed assets where the internal controls of the management are similar to the ones adopted by other companies are dealt by the auditors as per the publications on the Internal Control Questionnaire, published by the Institute of Chartered Accountants of India (ICAI). Since various operational cycles are interlinked, the internal controls operating within the systems of such cycles are reviewed simultaneously by the auditors. The company avails services of an actuary for computing various liabilities and provisions which are certified by the actuary. During the audit of the financial statements for the financial year ended 31 March 2019, the auditors of the company would like to have a discussion with the actuary who has given actuarial certificate on the basis of which certain liabilities have been recorded in the financial statements, however, the actuary and the management of the company are not comfortable with this and they have asked the auditor to complete their work on the basis of certificate. Further the management also provides management representation letter in respect of all of these points. Please suggest if you were the auditors of this company, how would you have handled this matter?</p> <p>a) The management is correct and as an auditor getting certificate would be a good audit</p>	

	<p>evidence.</p> <p>b) The management is not correct, and the auditor may have discussions with the actuary.</p> <p>c) The auditor is not correct because the IRDAI Guidelines require the actuary to maintain confidentiality and by having such discussion it would be a non-compliance. Auditors should be aware of such legal requirements.</p> <p>d) The auditor is not correct because such requirements require approval of the Insurance Regulatory and Development Authority of India (IRDA) and that would unnecessarily delay the completion of audit.</p>
IC.6	SM-22
	<p>NIC Pvt Ltd is a large private company engaged in the business of insurance for the last 9 years. The company has expanded its business considerably over the years and have set up various divisions across India. The accounting and the operational systems of the company are centralized wherein the accounts of all the divisions, trial balances and their balance sheets are prepared by the Head Office. AJ & Co, a firm of Chartered Accountants, are the statutory auditors of this company and audit all the divisions and the head office. The auditors have completed the audit of the financial statements of the company for the year ended 31 March 2021 and the company's financial statements are approved. Before the annual general meeting of the company, the company received a notice from the Insurance Regulatory and Development Authority of India (IRDAI) which has asked the company to respond within 7 days as to why this company breached the requirement of IRDAI guidelines by having a single auditor for all the divisions and head office. The management of the company has been doing this over the years and were never aware of this requirement. To respond to this, the management has consulted many legal experts and also the auditors. They would also like to understand your views as to how to respond to IRDAI in this critical situation. Please advise carefully.</p> <p>a) There has been no breach of IRDAI guidelines and accordingly the management should respond.</p> <p>b) The management should request IRDAI to consider relaxation in respect of this provision for the company for the current year as the audit is completed and it would be practically very difficult to complete the entire process within the required timelines.</p> <p>c) The management should respond to IRDAI that this provision is applicable to a company only after 15 years of its existence and hence there is no breach of IRDAI guidelines.</p> <p>d) The management should respond to IRDAI that this provision should have been ensured by the auditors and hence they should be held liable for this breach of provision of the IRDAI guidelines.</p>
IC.7	SM-22/M21R/N22M
	<p>Anant & Co. is the auditor of ST Insurance Company. The insurance company is also involved in re-insurance business and necessary provision for re-insurance premium has been made in the books of accounts. The insurance company is into a re -insurance whereby their contract relates to one particular risk and is expressed in the re-insurance policy. Each transaction is negotiated individually, and each party has a free choice i.e. for the insurance company to offer and the re-insurer to accept. What kind of a re-insurance business is the insurance company into?</p> <p>a) Facultative Re-insurance.</p> <p>b) Stop loss treaty re-insurance.</p> <p>c) Auto-fac re-insurance.</p> <p>d) Proportional treaty re-insurance.</p>

IC.8	M22M
	<p>The Splendid General Insurance Company has entered into reinsurance contract with Adi Reinsurance Co. Ltd. against the risk of fire only. Adi Reinsurance Co. Ltd. is one of the largest reinsurers in India. Identify the type of reinsurance contract between Splendid General Insurance Company and Adi Reinsurance Co. Ltd.</p>
	<p>(a) Treaty Reinsurance. (b) Proportional Treaty Reinsurance. (c) Non-Proportional Treaty Reinsurance. (d) Facultative Reinsurance.</p>

**AUDITS OF
INSURANCE
COMPANIES**

IC.1	d
IC.2	b
IC.3	c
IC.4	b
IC.5	b
IC.6	a
IC.7	a
IC.8	d

CHAPTER 11. AUDIT OF NBFC

NBFC.1	SM-22
	<p>CER Ltd is a non-banking financial company and has been operating for the last 10 years. The company is duly registered as per the requirements of the Reserve Bank of India. The company's assets base has been very strong over the years due to its efficient management function. The company is also planning to get listed for which required work is going on.</p> <p>For the financial year ended 31 March 2019, the company has closed its books of accounts and prepared the financial statements for the purpose of statutory audit in a timely manner. The auditors of the company have started their fieldwork. It has been observed by the auditors that the company's various term loans which have been given to various parties have become overdue in terms of instalment including interest for a period of 5 months. As per the auditors these terms loans should be considered by the company for making provision at the rate of 20% of total outstanding amount, however, the management has considered a provision at the rate of 0.30%. Please advise the auditors and the management regarding this matter considering that "Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016" are applicable to this NBFC.</p> <p>a) Provision should be made at 10%. b) Provision should be made 0.30% c) Provision should be made at 20%. d) Provision should be made at 0.40%</p>
NBFC.2	SM-22
	<p>CRE Ltd is a non-banking financial company and registered with the Reserve Bank of India as per the requirements of Section 45-IA of the Reserve Bank of India Act, 1934. The company was established with a net owned fund of Rs. 2 crores. The company's management had a great focus on the internal controls and processes. To make them robust, in the initial years of set up of the company, the management involved consultants who helped the management in setting up those processes and controls. The company's operations have grown considerably over the years and their assets base is huge. The management has in-house function which reviews these processes regularly and any improvements required are actioned upon in no time. With this kind of set up, the management was assured of the functioning of the NBFC as per right principles, however, despite this during the year ended 31 March 2019, the management came across instance of fraudulent encashment through forged instruments and fictitious accounts involving an amount of Rs. 5 lakhs. Though the amount was not significant but still the management discussed the same with the statutory auditors for their knowledge. The statutory auditors after discussion told the management that the management needs to report this matter to RBI with which the management is not comfortable considering the amount involved in this matter and the size of the company.</p> <p>a) Management need not report this matter considering the nature of fraud. b) Management need not report this matter considering the amount involved. c) Management should report this matter to RBI. d) Management should not report this to RBI, however, it will be their responsibility to report this matter to SEBI.</p>
NBFC.3	M19M
	<p>Deposit insurance facility of Deposit Insurance and Credit Guarantee Corporation (DICGC) is :</p> <p>a) Not available to depositors of NBFCs b) Available to +D23 depositors of NBFCs c) Available to depositors of Banks d) Not available to depositors of both NBFCs and banks</p>

NBFC.4	SM-22
	<p>Kshitij Ltd is a non-banking financial company other than Nidhi company and is covered under “Master Direction - Non-Banking Financial Companies Auditor’s Report (Reserve Bank) Directions, 2016”. The NBFC has been in existence for the last 11 years and its operations are considerable in size having a net worth of ` 299 crores.</p> <p>The NBFC has new statutory auditors for the financial year ended 31 March 2019. The audit report (including CARO) of the NBFC was clean for the financial year ended 31 March 2018. The company had a planning discussion with the auditors of the company for the financial year ended 31 March 2019 who raised a point regarding the applicability of new set of accounting standards, Indian Accounting Standards (Ind AS), on the NBFC for the financial year ended 31 March 2019 and have asked the management to ensure that its financial statements should be according to that. This comes as a big surprise to the management who had assessed that Ind AS would not be applicable to this NBFC because of the fact that CARO is applicable on this NBFC. There is a big disconnect on this matter between the auditor and the management. Please help by resolving this matter.</p> <ol style="list-style-type: none"> Both the management and statutory auditors are not correct because Ind AS is not applicable to any NBFC covered under “Master Direction - Non-Banking Financial Companies Auditor’s Report (Reserve Bank) Directions, 2016”. Management is correct because Ind AS is only applicable to NBFC which are also a Nidhi company. In this case, CARO being applicable, Ind AS cannot apply to this NBFC. If the management does not agree with the view of statutory auditors, then they should give adverse opinion in their report and also report this to RBI. Ind AS would not be applicable for financial year ended 31 March 2019 and hence the view of statutory auditors is not correct.
NBFC.5	SM-22
	<p>NBB Ltd is a non-banking financial company on which provisions of “Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 2016” are applicable.</p> <p>The company has been accepting as well as holding the public deposits. During the financial year ended 31 March 2017, the company obtained specified credit rating for its fixed deposits from CRISIL. However, during the financial year ended 31 March 2018, the company obtained minimum investment grade for its fixed deposits from ICRA Ltd. During the financial year ended 31 March 2019, no such grade/ rating was obtained. The reports of the statutory auditors for the past years have always been clean.</p> <p>The statutory auditors of NBB Ltd have completed their audit for the financial year ended 31 March 2019 as well and finalizing their audit report. The auditors discussed with the management that for the financial year ended 31 March 2019, they would have to include matter regarding acceptance of public deposits by the company without obtained required specified credit rating during the year ended 31 March 2019. The auditors further explained that even during the year ended 31 March 2018, instead of specified credit rating, the management obtained minimum investment grade which was ignored by them, but it cannot continue for 2 years. The management is of the view that this requirement was fulfilled as the same was obtained in the previous year and for one year if that is not taken then it should be fine. Please advise how to deal with this matter.</p> <ol style="list-style-type: none"> It would have been fine if the rating was obtained in the financial year ended 31 March 2018 instead of minimum investment grade. Hence the auditor should report this matter. It does not make any difference whether rating or grade was obtained. Moreover, the same should have been obtained in the current year also and hence the auditor should report this matter. It does not make any difference whether rating or grade was obtained. And hence management is correct that only up to last year it was obtained and hence no reporting is required by the auditor on this matter. If the rating was not obtained in the previous year, it requires that NBFC obtains rating in the current year twice i.e., every half year. Accordingly, it should be reported by the auditor.

NBFC.6	SM-22
<p>RCE Ltd was set up under the Companies Act 2013 and got itself registered as non-banking financial company with the Reserve Bank of India, fulfilling the required criteria. During the financial year ended 31 March 2021, the company's operations have started. The company's total assets were rupees 298 crores out of which trade receivables, loans receivable in cash, cash and bank balances comprised of rupees 199 crores. During the financial year ended 31 March 2021, the company's operations generated total income of rupees 99.50 crores. The management also did an assessment and observed that income from its financial assets was not much during the year and amounted to only rupees 60 crores. The management is looking at various alternatives to improve its operations, if required, to generate better income in the coming years.</p> <p>Further, the company during the year also accepted and gave demand deposits which have been very efficient for the company. Management has a plan to significantly increase these deposits in the next 2 years as that would help in the overall functioning of the company.</p> <p>In the context of the above, please answer which of the following options would be correct.</p> <ol style="list-style-type: none"> The company does not meet the criteria of financial assets and hence would not be considered as NBFC. Further, it cannot accept and give demand deposits and the same thing should be reported by the statutory auditors of the company. The company does not meet the criteria of income and hence would not be considered as NBFC. Further, it cannot accept and give demand deposits and the same thing should be reported by the statutory auditors of the company. The company meets the criteria of financial assets and income. An NBFC can only accept demand deposits but cannot give demand deposits. Hence in this case, the statutory auditors should report regarding the same. The company meets the criteria of financial assets and income. An NBFC can only give demand deposits but it cannot accept demand deposits. Hence in this case, the statutory auditors should report regarding this matter. 	
NBFC.7	N19R
<p>Yuvraj Ltd. is a non-banking financial company other than Nidhi company and is covered under "Master Direction - Non-Banking Financial Companies Auditor's Report (Reserve Bank) Directions, 2016". The NBFC has been in existence for the last 11 years and its operations are considerable in size having a net worth of ` 299 crores.</p> <p>The NBFC has new statutory auditors for the financial year ended 31 March 2019. The audit report (including CARO) of the NBFC was clean for the financial year ended 31 March 2018. The company had a planning discussion with the auditors of the company for the financial year ended 31 March 2019 who raised a point regarding the applicability of new set of accounting standards, Indian Accounting Standards (Ind AS), on the NBFC for the financial year ended 31 March 2019 and have asked the management to ensure that its financial statements should be according to that. This comes as a big surprise to the management who had assessed that Ind AS would not be applicable to this NBFC because of the fact that CARO is applicable on this NBFC. There is a big disconnect on this matter between the auditor and the management. Please help by resolving this matter.</p> <ol style="list-style-type: none"> Both the management and statutory auditors are not correct because Ind AS is not applicable to any NBFC covered under "Master Direction - Non-Banking Financial Companies Auditor's Report (Reserve Bank) Directions, 2016". Management is correct because Ind AS is only applicable to NBFC which are also a Nidhi company. In this case, CARO being applicable Ind AS cannot apply to this NBFC. If the management does not agree with the view of statutory auditors, then they should give adverse opinion in their report and also report this to RBI. Ind AS would not be applicable for financial year ended 31 March 2019 and hence the view of statutory auditors is not correct. 	

NBFC.8	N19M/ N21M /SM-22/N22M
	<p>50:50 test determination is popularly used in</p> <ul style="list-style-type: none"> a) Banking Company b) Insurance Company c) NBFC Company d) Stock Trading Company
NBFC.9	N20M
	<p>"During the audit of AMC Finance Ltd, an NBFC, the auditor found that a fraud was committed by its employees amounting to ` 107.80 lac. The management of the company took severe action against the employees and the auditors took all necessary steps to report t the fraud. Which among the following steps auditor should take, with respect to the fraud committed by the employees of thence?</p> <ul style="list-style-type: none"> a) Report in prescribed form should be sent to Central Fraud Monitoring Cell of RBI within 3 weeks from date of detection of fraud. b) Report in prescribed form should be sent to any Regional Office of Department of Non-banking supervision of RBI within a week from date of detection of fraud. c) Report the matter in prescribed form to the Central government within 21 days from date of detection of fraud. d) Report the matter to the promoters of the company, within 15 days from date of detection of fraud."
NBFC.10	M22M
	<p>M/s Vardhman and Associates have been appointed as the statutory auditors of a NBFC (UVW Ltd.) for the financial year 2021-22. The company is required to comply with the Indian Accounting Standards. During the course of audit CA Vardhman found that the company has classified its Assets and Liabilities as financial and non-financial instead of current and non-current. What should CA Vardhman advice the management of NBFC UVW Ltd. in this regard?</p> <ul style="list-style-type: none"> (a) The management of NBFC UVW Ltd. is correct in classifying the Balance Sheet items as financial and non-financial as per requirement of Division III of Schedule III of Companies Act 2013. (b) The management of NBFC UVW Ltd. is not correct in this regard and should classify the Balance Sheet items as current and non-current as is required by all other companies as per the requirement of the Division III under Schedule III of the Companies Act 2013. (c) The management of NBFC UVW Ltd is right in this regard as the NBFC has the option to classify the balance sheet items either as current and non-current or as financial and non- financial. (d) The management of NBFC UVW Ltd. should classify the Balance Sheet items as current and noncurrent as per the requirement of Division II of Schedule III of the Companies Act 2013 applicable in case of NBFC.

NBFC.11	N22R										
	<p>CA Z is appointed as a Statutory Auditor of JB Finance Limited (a Non- Banking Financial Company covered under Non-Banking Financial Company — Systematically important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016) for the year 2021-22. Following information is available with CA Z with respect to JB Finance Limited as at 31st March, 2022:</p> <table border="1" data-bbox="263 398 1414 680"> <thead> <tr> <th data-bbox="263 398 839 468">Particulars</th> <th data-bbox="839 398 1414 468">(in Lakh)</th> </tr> </thead> <tbody> <tr> <td data-bbox="263 468 839 506">Standard Assets</td> <td data-bbox="839 468 1414 506">700.00</td> </tr> <tr> <td data-bbox="263 506 839 544">Sub-standard Assets</td> <td data-bbox="839 506 1414 544">200.00</td> </tr> <tr> <td data-bbox="263 544 839 613">Doubtful Assets (Secured and up-to one year)</td> <td data-bbox="839 544 1414 613">10.00</td> </tr> <tr> <td data-bbox="263 613 839 680">Doubtful Assets (Secured and more than three years)</td> <td data-bbox="839 613 1414 680">50.00</td> </tr> </tbody> </table> <p>What will be the total provision required to be made in the books of JB Finance Limited for the year ended 31 March, 2022 for the above stated Assets?</p>	Particulars	(in Lakh)	Standard Assets	700.00	Sub-standard Assets	200.00	Doubtful Assets (Secured and up-to one year)	10.00	Doubtful Assets (Secured and more than three years)	50.00
Particulars	(in Lakh)										
Standard Assets	700.00										
Sub-standard Assets	200.00										
Doubtful Assets (Secured and up-to one year)	10.00										
Doubtful Assets (Secured and more than three years)	50.00										
	<p>(a) 49.8 Lakh (b) 47 Lakh (c) 34.8 Lakh (d) 52.8 Lakh</p>										

**AUDITS OF
NBFC**

NBFC.1	a
NBFC.2	c
NBFC.3	a
NBFC.4	d
NBFC.5	b
NBFC.6	d
NBFC.7	d
NBFC.8	c
NBFC.9	a
NBFC.10	a
NBFC.11	a

CHAPTER 12. AUDIT UNDER FISCAL LAWS

FL.1	SM-22
	<p>ABC & Co LLP is a firm of Chartered Accountants having 5 partners. The firm specializes in taxation work and also has large no of statutory audits and tax audits of corporate entities and non-corporate entities. During the financial year ended 31 March 2018, the firm has received various requests for new tax audits. On the basis of limit assigned in respect of tax audit assignments by a Chartered Accountant/ firm of Chartered Accountants, please suggest which of the following would be correct.</p>
	<p>a) Firm can accept 300 tax audits assignments (in total) to be signed by its 5 partners. b) Firm can accept 300 tax audits of corporate entities and 300 tax audits of noncorporate entities to be signed by its 5 partners. c) Firm can accept 300 tax audits of corporate entities, 300 tax audits of non-corporate entities and more by outsourcing the same to Chartered Accountants outside the firm, however, all these will be signed by its 5 partners. d) Since the firm specializes in taxation work, it cannot accept 300 tax audit assignments.</p>
FL.2	M19R/M20M/SM-22/M23M
	<p>AJ & Co LLP is a firm of Chartered Accountants. The firm has 10 Partners. The firm has a good portfolio of clients for statutory audits, but the same clients had some other firms as their tax auditors. In the current year(FY 2021-22), many existing clients for whom AJ & Co LLP happens to be the statutory auditor have requested the firm to carry out their tax audits as well. The firm is expecting the no of tax audits to increase significantly this year. One of the partners of the firm has also raised a point that the firm can accepts tax audits up to a maximum limit. However, other partners are of the strong view that limits on audits is applicable in case of statutory audits and not for tax audits. This needs to be decided as soon as possible so that the appointment formalities can also be completed. You are requested to advise the firm in this matter.</p>
	<p>a) There is no limit on no of tax audits in case of LLP. b) All the partners of the firm can collectively sign 450 tax audit reports. c) All the partners of the firm can collectively sign 600 tax audit reports. d) All the partners of the firm can collectively sign 450 tax audit reports. However, one partner can individually sign maximum 60 tax audit reports.</p>
FL.3	S-2
	<p>AKB Ltd is a large sized company having diversified business activities. The company's operations are spread across various locations within India and outside India. The company has many units and plants. The no of transactions of the company is large and it uses SAP as its ERP package. The company appointed LLM & Associates as their new tax auditors for the current year. Tax auditors were reviewing the statutory compliances and observed that currently there is no process of the company to check whether TDS has been correctly deducted on all transactions or not. Since the transactions of the company may be running in thousands and covers various provisions of TDS, the management believes that such a process cannot be established. Also, in the past this exercise was never done and no case of any short/non-deduction of TDS has been reported inform 3CD in the past. How should the tax auditor deal with this matter in his report?</p>
	<p>a) Management is right and hence it should be ignored by the tax auditor. b) Tax auditor should test check and basis that he should close this point. c) Management should provide a reconciliation to the auditor reconciling the accruals/ expenses with TDS deducted during the year to ensure TDS is deducted appropriately. If the same is not available, tax auditor should qualify his report. d) Management should set up a process as per the requirement of the tax auditor. For the current year, tax auditor should obtain management representation on this matter and should close this accordingly.</p>

FL.4	SM-22
	<p>AOP Pvt Ltd is currently engaged in closing its books of accounts for the financial year ended 31 March 2019. The company has always been a compliance-savvy and has also engaged consultants for the same. The business of the company has been stable over the years and profitability has been good over the last 3 years.</p> <p>The company got registered for GST on time. Since registration the company has been filing statement of returns GSTR 3B. However, Annual Return in GSTR 9 has not been filed by the company.</p> <p>Proper Officer issued a notice for failure to file Annual Return within 15 days. Even then, no Annual Return was filed by the company within the time permitted. Please advise</p>
	<ul style="list-style-type: none"> a) In such a case, the company becomes a 'non-filer'. b) In such a case, the company would remain fully compliant. c) The Proper Officer would be required to discuss this matter with the GST auditors of the company. d) GST auditor may resign in this situation.
FL.5	M19M
	<p>As an auditor appointed under section 44AB of the Income Tax Act, 1961, under which clause of Form 3CD, you will report for amounts deemed to be profits and gains under section 32AC, 33AB or 33ABA or 33AC</p>
	<ul style="list-style-type: none"> a) clause 24 b) clause 40 c) clauses 31 d) clause 23
FL.6	M19M
	<p>Following are the registered persons under GST Act, 2017. Which one of the registered person is required to get his accounts audited and also furnish a copy of audited annual accounts and a reconciliation statement, duly certified in FORM GSTR –9C?</p>
	<ul style="list-style-type: none"> a) Mr. A is an advocate whose turnover for the financial year ended 31 March 2018 was Rs.1.25 crores. b) Mr. B is a labour contractor managing construction services and his turnover for 31 March 2018 was Rs.3.95 crores. c) Dr. C is a pediatric surgeon who has newly set up his practice in Pune. He paid an amount of Rs.10.5 lakhs as taxes in the current year. d) Mr. D, who is an architect, has paid taxes of Rs.22.5 lakhs in the current year
FL.7	SM-22
	<p>Jain Ltd is a medium sized company having operations in Ghaziabad and Lucknow. The corporate office of the company is based at Delhi. During the year due to certain migration in the ERP package of the company, the financial statements were finalized very late but were filed with the regulatory authorities on time as per the requirements of the statute. For the financial year ended 31 March 2018, the due date of filing income tax return of the company was 31 October 2018 and tax audit was also applicable to the company.</p> <p>Since the company was facing internal disturbances, its tax audit could not get completed on time and the company decided to submit its income tax return on time and form 3CD and tax audit report later on (i.e., after the due date of filing income tax return once that is properly audited). Please suggest which of the following would be correct in this case.</p>
	<ul style="list-style-type: none"> a) Company is doing right by filing income tax return on time without tax audit report. b) Company's move is not right. Income tax return should be filed along with tax audit report. c) Company is doing the right thing by filing income tax return on time. In the given situation, the company may choose not to file tax audit report for the current year. d) Company should take written advise from a tax consultant about this and should attach that along with income tax return if tax audit report is not being filed.

FL.8	SM-22
	<p>Nisha Ltd is engaged in the business of trading of chemicals. Nisha Ltd is a small size company but on the basis of turnover criteria, tax audit becomes applicable to the company. The company has been filing its income tax returns on time in the previous years and understands that the objective of the tax audit is to ensure that proper books of accounts are maintained by the assesses. Considering the fact that company is also required to get its accounts audited as per the requirements of the Companies Act 2013, it would like to avail exemption from tax audit. If that is not possible then the company would go for tax audit report from an accountant who is cost effective. In this context, please suggest which of the following should be correct.</p>
	<ul style="list-style-type: none"> a) Company can avail tax audit exemption in the given situation. b) Company cannot avail tax audit exemption, but it may be exempt from submitting the tax audit report from a Chartered Accountant. c) Company can avail tax audit exemption, however, the statutory auditor in that case would be required to cover the same in his statutory audit report. d) Company cannot avail tax audit exemption and would need to get this done from a Chartered Accountant.
FL.9	N19M
	<p>Rajeev Ltd is a listed company having business of production of motion pictures. For the year ended 31 March 2018, the company wanted to appoint GST auditor. For the purpose, somebody who is familiar with the business of the company/industry was to be preferred for appointment i.e., who would have worked with the company in the past to avoid efforts/ duplication in terms of providing the information to get the GST audit completed. The company had following options for the same. Please advise.</p>
	<ul style="list-style-type: none"> a) Internal auditors can be appointed for this work. b) Both statutory and internal auditors can be jointly appointed for this work. c) Internal auditors along with the tax consultants of the company can be appointed for this work. d) Statutory auditors can be appointed for this work.
FL.10	SM-22
	<p>RJ & Associates have been the statutory auditors of SH & Co, a partnership firm, for many years. Tax audit of SH & Co was performed by KJ & Associates. During the year ended 31 March 2018, KJ & Associates resigned as tax auditors of SH & Co due to their personal reasons. SH & Co appointed RJ & Associates as its tax auditor for the year ended 31 March 2018. The engagement letter of RJ & Associates as statutory auditors of SH & Co was already signed, and RJ & Associates moved ahead without signing another engagement letter for tax audit since most of the terms related to engagement were covered in the engagement letter of statutory audit except additional scope and fee which was principally agreed between both the parties. Please suggest which of the following is correct in the given situation.</p>
	<ul style="list-style-type: none"> a) RJ & Associates need not sign another engagement letter for tax audit. b) RJ & Associates need to sign another engagement letter for tax audit. c) RJ & Associates need not sign another engagement letter for tax audit. However, they should ensure that the same thing is covered in the engagement letter for next year i.e. year ending 31 March 2019. d) RJ & Associates need not sign another engagement letter for tax audit if the fee for tax audit is within the range of 5-10% of statutory audit fee.

FL.11	M20M																								
	<p>RK & Associates are the tax auditors of OPQ Pvt Ltd. While performing procedures in respect of clause 21(d) of form 3 CD, the tax auditors came across various payment vouchers where the cash paid exceeds INR 50,000 during a day. The tax auditors want the management to report all of these payments in Form 3CD, however, the management has a different view. The management said that the payment voucher is one for various payments made during a day to various/ same parties but any payments made to various parties or all payments taken together during a day to a single party do not exceed the criteria for reporting under clause 21(d) of Form 3CD. Please suggest how would you deal with this matter as tax auditor.</p>																								
	<ul style="list-style-type: none"> a) Since the payment in a single voucher exceeds the prescribed limit it should be reported in Form 3CD otherwise the tax auditor should report this in his tax audit report. b) Since the payment in a single voucher exceeds the prescribed limit it should be reported in Form 3CD. Tax auditor should qualify his report and send a written communication about this matter to Income Tax Department. c) None of the payment to a single party during a day exceeds the prescribed limit, thus, it should not be reported in Form 3CD. d) Since the payment in a single voucher exceeds the prescribed limit it should be reported in Form 3CD. However, tax auditor may ignore this if the amount is immaterial, however, he should insist the management to give a disclosure of the same in Form 3CD and should emphasize the same point in his tax audit report. 																								
FL.12	M19M																								
	<p>MNC Ltd., India is subsidiary of MNC Inc, US. LLP & Associates has been appointed by MNC Ltd. for audit of statutory financial statements. MNP & Associates has been appointed as the auditors of the Reporting package of MNC Ltd. prepared for the year ended 31 March which is required for consolidation purposes. MNP & Associates are also the tax auditors of MNC Ltd. What should be format for reporting of MNP & Associates on Form 3CD of MNC Ltd.?</p>																								
	<ul style="list-style-type: none"> a) MNC Ltd. should report as per the internal formats of the firm. b) MNC Ltd. should report as per the formats issued as per ICDS (Income Computation and Disclosure Standards). c) MNC Ltd. should report as per Form 3CB. d) MNC Ltd. should report as per Form 3 CA. 																								
FL.13	N20M																								
	<p>"Mr. KTK, was an employee of Youths Ltd, a company engaged in the business of electronics goods, who retired from his service on 30th September,2018. As he is an electronic Engineer by profession, on 27th October,2018 he started a retail business dealing in Electronic items under the name KTK Traders, a proprietary concern, in his hometown. Mr. KTK provides you the following information regarding the turnover of his proprietary concern for the financial year ended 31st March,2020:</p> <table border="1" data-bbox="256 1585 1414 1939"> <thead> <tr> <th>Date</th> <th>Particulars</th> <th>Amount</th> </tr> </thead> <tbody> <tr> <td>From 1.4.2019 to 31.3.2020</td> <td>Gross Turnover</td> <td>1.25 crore</td> </tr> <tr> <td>25-05-2019</td> <td>Less: Goods returned (sales made during the financial year 2018-2019)</td> <td>0.08 crore</td> </tr> <tr> <td>12-11-2019</td> <td>Less: Cash discount allowed</td> <td>0.05 crore</td> </tr> <tr> <td>30-12-2019</td> <td>Less: Goods returned (sales made on 10-12-2019)</td> <td>0.11 crore</td> </tr> <tr> <td>15-02-2020</td> <td>Less: Discount allowed in the sales invoice</td> <td>0.03 crore</td> </tr> <tr> <td>31-03-2020</td> <td>Less: Commission on sales</td> <td>0.01 crore</td> </tr> <tr> <td></td> <td style="text-align: right;">Net sales</td> <td>0.97 crore</td> </tr> </tbody> </table> <p>As per section 44AB of the Income tax Act,1961,every person carrying on business shall, if his total sales, turnover or gross receipts, as the case may be, in business exceed or exceeds one crore rupees in any previous year, get his accounts audited by an accountant before the specified date. Considering the above, which of the following shall be considered as a reason for applicability or</p>	Date	Particulars	Amount	From 1.4.2019 to 31.3.2020	Gross Turnover	1.25 crore	25-05-2019	Less: Goods returned (sales made during the financial year 2018-2019)	0.08 crore	12-11-2019	Less: Cash discount allowed	0.05 crore	30-12-2019	Less: Goods returned (sales made on 10-12-2019)	0.11 crore	15-02-2020	Less: Discount allowed in the sales invoice	0.03 crore	31-03-2020	Less: Commission on sales	0.01 crore		Net sales	0.97 crore
Date	Particulars	Amount																							
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	Net sales	0.97 crore																							

	non-applicability of tax audit under section 44AB of the Income Tax Act,1961.
	<p>a) Tax audit under section 44AB of the Income Tax Act,1961 shall be applicable as it is having an effective turnover of `1.25 crore, which is more than the limit prescribed.</p> <p>b) Tax audit under section 44AB of the Income Tax Act,1961 shall be applicable as it is having an effective turnover of `1.03 crore, which is more than the limit prescribed.</p> <p>c) Tax audit under section 44AB of the Income Tax Act,1961 shall not be applicable as it is having an effective turnover of `0.97 crore, which is less than the limit prescribed.</p> <p>d) Tax audit under section 44AB of the Income Tax Act,1961 shall not be applicable as it is having an effective turnover of `0.98 crore, which is less than the limit prescribed."</p>

FL.17	SM-22
	<p>AV Ltd is in the business of manufacturing of chemicals and has a net worth of INR 700 crore. The company has been preparing its financial statements as per Ind AS. For the purpose of Form 3CD, management did not identify any items which may require adjustments because of the differences between Ind AS and ICDS. However, the tax auditors during the course of their audit identified few items where adjustments are required to be made and accordingly, should be reported under Clause 13(e) of Form 3CD.</p> <p>Further tax auditors also are of the view that disclosures in respect of ICDS should be made in Clause 13(f) of Form 3CD which the management has not done. In this case, please suggest which of the following would be the correct option.</p> <p>(a) If the impact of the adjustments related to ICDS identified by the auditors is material then such adjustments need to be reported in Form 3CD. And disclosures in respect of ICDS should in any case be given in Form 3CD.</p> <p>(b) If the impact of the adjustments related to ICDS identified by the auditors is immaterial even then such adjustments need to be reported in Form 3CD. To give disclosures in respect of ICDS is the management choice.</p> <p>(c) Both the impact of the adjustments related to ICDS identified by the auditors, whether material or immaterial, and disclosures need to be mandatorily reported in Form 3CD.</p> <p>(d) ICDS and Ind AS don't have any differences and hence assessment of the auditor doesn't seem to be correct. Hence no reporting would be required under Clause 13(e) of Form 3CD. If there is no reporting under Clause 13(e) then reporting under Clause 13(f) would also not be required in Form 3CD.</p>

FL.20	M21M/SM-22
	<p>For the year ending 31st March 2021, SabkaVikas & Sons has made a claim for refund of custom duty for Rs. 2 crore but such refund was as admitted as due by authority in April 2021. SabkaVikas & Sons neither credited the claim in Profit and Loss account nor reported the same in clause 16 of Form 3CD. Can you please guide the auditor of SabkaVikas & Sons for reporting of refund of custom duty in accordance with clause 16 of Form 3CD?</p> <p>(a) Refund of custom duty to the extent of Rs. 2 crore should be reported in clause 16 as the same is admitted by the custom authorities.</p> <p>(b) Refund of custom duty to the extent of Rs. 2 crore need not be reported in clause 16 as it is admitted by custom authorities in the next financial year.</p> <p>(c) No disclosure is required as refund of custom duties is not covered under clause 16.</p> <p>(d) Auditor should take a written representation from the management stating that refund of custom duty of Rs. 2 crore will be credited to profit and loss account for the financial year ending 31st March 2022 and thus, no reporting is required</p>

FL.21	M22M
	<p>M/s. ASH Brothers is a partnership firm engaged in the business of selling old vehicles. Mr. A, Mr. S and Mr. H are the three partners of the firm. In the month of January 2021, Mr. H's son (a minor) was admitted for the benefit of partnership who attained majority in April 2022, but no change was made in the Partner's share during the year. Whether the tax auditor is required to mention the details of Mr. H's son admitted to the partnership during the year, as per clause 9 of Form 3CD of the Income Tax?</p>
	<p>(a) Since the minor has not attained majority during the audit period, no details need to mention in Form 3CD.</p> <p>(b) The auditor is not required to give details of minor admitted to partnership as there was no change in the Partner's Share during the year.</p> <p>(c) Any change in the Partners since the last date of the preceding year has to be mentioned under clause 9(b) of Form 3CD.</p> <p>(d) As the father of minor is his guardian till he attains majority and Mr. H was already partner in the firm, there is no need to mention the details of minor in Form 3CD.</p>

**AUDIT UNDER
FISCAL LAWS**

FL.1	a
FL.2	c
FL.3	c
FL.4	a
FL.5	a
FL.6	b
FL.7	b
FL.8	d
FL.9	d
FL.10	b
FL.11	c
FL.12	d
FL.13	b
FL.17	a
FL.20	b
FL.21	c

CHAPTER 13. AUDIT OF PUBLIC SECTOR UNDERTAKING

PSU.1	M19M
In Case of PSU, Direct Reporting Engagement does not include	
<ul style="list-style-type: none"> a) Performance audits b) compliance audits c) Financial audits d) Comprehensive Audit 	
PSU.2	M19M
<p>A Public Limited Company is having its Head Office at Mumbai and the employees from various branch offices used to visit Mumbai for official meetings. So, the company decided to construct guest house for their employees staying in Mumbai, as the stay in hotel was very expensive. The management took all sanctions to construct the building and the expenditure was incurred in conformity with the rules and regulations. The building was ready for use by the year 2015 on which a total expenditure of Rs. 5 crores was done, but it was not used by the employees and they continued to stay in hotel. From the financial 2015-16 onwards the expenses were booked in company's profit and loss account for the upkeep and maintenance of the building and the hotel charges paid for the stay of employees. The company was having a separate internal audit department but one of the director demanded propriety audit to ensure compliance with section 186 of the Companies Act, 2013 and ensure that the transactions represented by books are prejudicial to the interests of the company. Do you think that there is any need for propriety audit?</p>	
<ul style="list-style-type: none"> a) Propriety audit is not required when the company is already having a separate internal audit department and these areas can be covered in the scope of internal auditors. b) The director has no right to demand propriety audit, as in the case of Public Limited Company only Government is authorized to decide on whether a propriety audit is required or not. c) Propriety audit is concerned with the scrutiny of executive decisions and actions affecting the company's financial and profit & loss situation. So, in the above case it is required as huge expense has been done on construction of building and even then it was not used, which had a major impact on company's profit and loss statement. d) There is no need of propriety audit as the management took all sanctions to construct the building and the expenditure was incurred in conformity with the rules and regulations. 	
PSU.4	SM-22
<p>NOP Ltd is a joint venture of Central Government and a private company and is engaged in the business of distribution of electricity in Chennai. The Central Government holds 51% shares of the company.</p> <p>The company is acknowledged for its consumer-friendly practices. Initially it was completely owned by the Government and was running into significant losses but after the joint venture, the aggregate technical and commercial losses of the company showed a record decline. The operations of the company have improved significantly as claimed by the management of the company.</p> <p>The C&AG wants to conduct the performance audit of one of the departments of the company through a subordinate office of Indian Audit and Accounts Department. For this purpose, the audit programme has also been finalized and the Accountant General has intimated the company that the audit would start within a day's time. The company is concerned because the programme which has been received from the Accountant General is quite detailed and would involve significant time. Further the management of the company is quite surprised as to why this audit should be conducted as this is not a company subject to such types of audits as per law.</p> <p>The management of the company would like to have your inputs in respect of this matter. Please guide.</p>	

	<p>a) The notice for such type of audit should give reasonable time to the management to prepare themselves. Further it should not be a detailed audit requiring significant time of the company.</p> <p>b) The C&AG may conduct such type of audits in respect of NOP Ltd which would get covered in this criterion, however, the notice for conducting such type of audit should give reasonable time to the management to prepare themselves.</p> <p>c) In case of a joint venture such type of audit cannot be performed as per the Companies Act 2013. The company should write to the Registrar of Companies in respect of this matter and till that time no audit can be started.</p> <p>d) In case of a joint venture such type of audit cannot be performed as per the Companies Act 2013. Further wherever this is applicable that is only for a small period of time. The company should write to the Ministry of Corporate Affairs in respect of this matter.</p>
PSU.5	SM-22
	A report submitted by you after an audit of a public sector unit is more likely to be finally reviewed by
	<p>(a) Public Accounts Committee (PAC).</p> <p>(b) Committee on Public Undertakings (COPU).</p> <p>(c) Estimates Committee.</p> <p>(d) Public sector Committee.</p>
PSU.6	SM-22/M23R
	<p>You have been given an assignment of audit of IT department of a PSU.A checklist was handed over to you which contained many questions such as,</p> <ul style="list-style-type: none"> ▪ Are separate user names and passwords assigned to individual users? ▪ Are periodical changes of passwords ensured? ▪ Are external (offsite) data backups maintained at a place outside the premises? <p>The type of audit being conducted is likely to be:</p>
	<p>(a) Comprehensive audit.</p> <p>(b) Propriety audit.</p> <p>(c) Compliance audit.</p> <p>(d) Financial audit.</p>
PSU.7	N22R
	With respect to audit of public sector undertaking, which among the below is related to propriety audit?
	<p>(a) This audit is carried out by assessing whether activities, financial transactions and information comply in all material aspects, with the regulatory and other authorities which govern the audited entity.</p> <p>(b) This auditing focuses on the areas in which it can add value which have the greatest potential for development. It provides constructive incentives for the responsible parties to take appropriate action.</p> <p>(c) It is an audit under which the C&AG does not really cover again the field which has already been covered. He conducts an appraisal or an efficiency cum performance audit.</p> <p>(d) It stands for verification of transactions on the tests of public interest, commonly accepted customs and standards of conduct. This audit is directed towards an examination of managements decisions in sales, purchases, contracts, etc.</p>

AUDIT OF PUBLIC SECTOR UNDERTAKING

PSU.1	c
PSU.2	c
PSU.4	b
PSU.5	b
PSU.6	a
PSU.7	d

Note: ICAI has changed answer of MCQ **PSU.6** from **Compliance Audit** to **Comprehensive Audit** in Recent Nov 22 MTP
Answer Given here is latest answer.

CHAPTER 14. LIABILITIES OF AUDITOR

LA.1	SM-22
<p>JK Ltd is a company engaged in the business of software development. It is one of the largest companies in this sector with a turnover of INR 25,000 crores. The operations of the company are increasing constantly, however, the focus of the management is more on cost-cutting in the coming years to improve its profitability.</p> <p>In respect of the financial statements of the company which are used by various stakeholders, some deficiencies were observed in respect of assets reported therein due to which those stakeholders suffered damages. As a result, those stakeholders went for a civil action against the company including all the parties who had the responsibility in respect of those financial statements.</p> <p>The statutory auditors of the company were also roped in. The statutory auditors went against this civil action and were able to prove that there was no professional negligence on their part.</p> <p>It was decided that the loss was occasioned through the negligence of directors and the fault of the auditor in failing to verify the asset was considered to be only technical. On the basis of above-mentioned facts, what should be the correct option out of the following?</p>	<p>a) A penalty should be levied on the auditors but that should not be equivalent to the damages suffered by the stakeholders. The damages would be required to be made good by the directors of the company.</p> <p>b) Both the auditors and the directors should be held liable in respect of the deficiencies identified. Both of them should compensate these stakeholders in respect of the damages and a further penalty of INR 10 lakhs would be imposed on them.</p> <p>c) Auditors and directors should be held liable in this case. Further because the fault of directors is bigger, they would be subject to a penalty of INR 10 crores or losses suffered by the stakeholders, whichever is higher.</p> <p>d) Since the fault of the auditor is limited to technical in nature, he cannot be held liable for any penalty or damages. However, he would not be allowed to work for this company and any other company in similar industry for a period of next 5 years as per the requirements of the Companies Act 2013.</p>
LA.2	SM-22
<p>KKR Ltd is a medium-sized company engaged in the business of e-commerce. The company's operations have remained stable over the years and its profitability has been going down. The company also ventured into different markets over the last few years but that has not helped much in terms of growth of business or increasing the profitability. The company's immediate plan is to expand its operations with focus on increasing the profitability.</p> <p>The company was looking for funds to achieve this objective and issued a prospectus to the public to subscribe to its shares. The financial statements of the company for the year ended 31 March 2021 included in the prospectus showed a very different picture of the company particularly in respect of its profits.</p> <p>It was later on found that some of the information contained in the prospectus was misstated i.e., it was untrue and misleading to attract the public to subscribe the shares of the company. Legal action was taken by the stakeholders against the company including its auditors and the company's management/ directors were confident that they would not be required to face any action considering the fact that the financial statements were duly audited by a reputed firm of Chartered Accountants. If at all any problem arises, it would be the responsibility of the auditors.</p> <p>Please advise whether anyone can be held liable in this matter or not. If yes, what action can be taken against him/them? If no, what should be the corrective action?</p>	

	<p>a) The understanding of the directors is correct, and the auditors should be held liable under section 447 of the Companies Act.</p> <p>b) The understanding of the directors is wrong. They would be held liable under section 447 of the Companies Act and not the auditors because responsibility for the prospectus lies with the management.</p> <p>c) This may lead to criminal liability wherein every person who authorizes the issue of such prospectus shall be liable under section 447 of the Companies Act.</p> <p>d) This may lead to civil liability wherein every person who authorizes the issue of such prospectus shall be liable under section 447 of the Companies Act.</p>
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LA.3	SM-22
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	<p>Kshitij and a group of persons subscribed to the shares of JNN Ltd. JNN Ltd had issued a prospectus for issuance of shares against which these persons had subscribed the shares. It was later on found that some information as included in the prospectus was misleading. These persons filed a case against the company covering all the parties who were responsible for the prospectus on the ground that the information contained in the prospectus was misleading and they suffered losses by relying on that information. The company consulted this matter with its legal consultants in respect of the course of action to be taken and also consulted that if the outcome of the case goes against the company then which all parties may be held liable and what could be the other consequences.</p> <p>The prospectus included auditor's report who had also given his clearance. Some of the experts were also involved in respect of the information on which the litigation was filed. Subsequently, it was proved that the contention of Kshitij and those persons was correct. It was held that the directors, promoters of the company and the experts involved would be liable to pay compensation to all these persons who had sustained losses or any damage.</p> <p>The auditors of the company were also asked to make good the losses but they refused with an argument that it is limited to directors, promoters and experts. In this context, please suggest which of the following statement is correct.</p>
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	<p>a) The argument of the auditors is valid. As per the final outcome of the litigation the auditors were not held liable. However, on moral grounds the auditors should contribute towards the losses suffered by any person.</p> <p>b) The argument of the auditors is valid. Since the final outcome of the litigation did not held them liable, they cannot be asked to contribute towards the losses suffered by any person.</p> <p>c) The argument of the auditors is not valid. The final outcome of the litigation covers the experts and hence the auditors also get covered to contribute towards the losses suffered by the persons.</p> <p>d) The outcome of the litigation seems to be completely wrong. The directors and experts were held liable but along with that the statutory auditors, internal auditors, tax auditors, Company Secretary, tax consultants and the legal advisors should also have been held liable. Further the promoters cannot be held liable in such matters.</p>
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LA.4	N21M/SM-22/ M22M/M23M
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	<p>OPE Ltd issued a prospectus in respect of an IPO which had the auditor's report on the financial statements for the year ended 31 March 2021. The issue was fully subscribed.</p> <p>During this year, there was an abnormal rise in the profits of the company for which it was found later on that it was because of manipulated sales in which there was participation of Whole-time director and other top officials of the company. On discovery of this fact, the company offered to refund all moneys to the subscribers of the shares and sued the auditors for the damages alleging that the auditors failed to examine and ascertain any satisfactory explanation for steep increase in the rate of profits and related accounts.</p> <p>The company emphasized that the auditor should have proceeded with suspicion and should not have followed selected verification. The auditors were able to prove that they found internal controls to be satisfactory and did not find any circumstance to arouse suspicion.</p>
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	<p>The company was not able to prove that auditors were negligent in performance of their duties. Which of the following is correct?</p>	
	<p>a) The stand of the company was correct in this case. Considering the nature of the work, the Auditors should have proceeded with suspicion and should not have followed selected verification.</p> <p>b) The approach of the auditors looks reasonable in this case. The auditors found internal controls to be satisfactory and also did not find any circumstance to arouse suspicion and hence they performed their procedures on the basis of selected verification.</p> <p>c) In the given case, the auditors should have involved various experts along with them to help them on their audit procedures. Prospectus is one area wherein management involves various experts and hence the auditors should also have done that. In the given case, by not involving the experts the auditors did not perform their job in a professional manner. If they had involved experts like forensic experts etc., the manipulation could have been detected. Hence the auditors should be held liable.</p> <p>d) In case of such type of engagements, the focus is always on the management controls. If the controls are found to be effective, then an auditor can never be held liable in respect of any deficiency or misstatement or fraud.</p>	
LA.5		SM-22
	<p>Vimal Kumar, a Chartered Accountant by profession, has been into practice for the over 6years. He developed a specialization in respect of matters related to Income Tax and hence got various clients to whom he was advising.</p> <p>Other than the taxation work, Vimal was also good in accounting matters but he could not develop his business/ clientele the accounting services over the period. He used to represent his clients in respect of income tax returns.</p> <p>For one of his clients, he, as an authorised representative, prepared the return of income and furnished the same and other required documents (the particulars of accounts, statements and other documents supplied to him by the assessee for the preparation of the return) to the Assessing Officer. He had also conducted an examination of those records and submitted a report on the scope and results of his examination.</p> <p>The assessee in this case was a very old client of Vimal and also used to pay him very good remuneration. In order to provide some benefits to the assessee, Vimal provided certain information to the assessing officer which was found to be false later on. In the given case, which of the following options should apply?</p>	
	<p>a) Since Vimal only acted as a representative of the assessee, he cannot be held liable. The assessee is the primary person responsible and accordingly the assessee would be liable to rigorous imprisonment which may extend to seven years and to a fine.</p> <p>b) The given matter does not only relate to submission of the return of income but also covers an examination of those records and a report on the scope and results of examination by a Chartered Accountant. Because of the professional responsibilities placed on a CA, it becomes his duty to carry out all the tasks in an objective manner free from any bias. Hence Vimal would be liable to a penalty of ` seven crores and imprisonment of seven years.</p> <p>c) Vimal would be liable to rigorous imprisonment which may extend to seven years and to a fine.</p> <p>d) Vimal and his assessee would be liable to a penalty which may extend to ` 1 crore. Further because of the fact that the particulars submitted with the assessing officer belong to the assessee, hence the assessee would also be liable to imprisonment for three years under the Indian Penal Code.</p>	

LIABILITIES OF AUDITOR

LA.1	a
LA.2	c
LA.3	c
LA.4	b
LA.5	c

Ch.15 INTERNAL AUDIT, MANAGEMENT AND OPERATIONAL AUDIT

IA.1	S-1
	<p>AAS Ltd is in the business of fast-food chains. During the internal audit of accruals/ expenses of the company, the internal audit team observed that for some of the entries passed the narration was wrongly written as if the expense is related to the travelling expense. The vouchers were passed by the finance personnel of the company, but no review mechanism was seen for this. Management explained that there is a review mechanism, but this is only about narration of expenses which should not be relevant for the internal auditor. How should the internal auditor deal with this matter?</p>
	<p>a) The Company should perform the review of entries to check such cases and same thing should be reported by the internal auditor.</p> <p>b) The Company's management seems reasonable here.</p> <p>c) This matter should be considered on the basis of materiality.</p> <p>d) Internal auditor should further investigate as this is indicative of fraud.</p>
IA.2	S-1
	<p>ACE Pvt Ltd is a large company and has diverse operations. The company is planning to get listed to raise funds. Over the last years, the company did not use much of technology and with the changing times, the management has also identified the need to bring mechanisms in place to improve upon the use of technology.</p> <p>The internal auditors of the company while review of Business Continuity Planning/ Disaster Recovery Plans observed that the Identified Disaster Recovery Site of the company was in the same seismic zone as the Primary Site. Therefore, the effectiveness of the Disaster Recovery (DR) Plan was not verified.</p> <p>The management discussed this matter with the internal audit team and explained that the present DR plan is to protect against hardware failure and building level exposure. They will plan for city level DR along with Annual Business Plan in another year. Please suggest which one of the following options is correct.</p>
	<p>a) DR plan is not of much relevance and should not be focused upon by the internal auditor in his report.</p> <p>b) DR plan is an outdated plan and in today's scenario it is not required. Hence internal auditor should drop this.</p> <p>c) Absence of Disaster Recovery Site in different seismic zone might lead to failed or delayed recovery of business operations in an event of natural disaster. It is important for the management to plan this and hence internal auditor should also report this.</p> <p>d) Since the management has a plan for DR in near future this matter is not relevant to be reported.</p>
IA.3	M19M
	<p>AFM coaching institute was accepting fees from its students in cash or cheque or online transfer for an amount up to Rs.10000/-, and if the amount of fees is above Rs.10000/- by cheque or online transfer only. In the year 2017 the institute's total fees collection was of Rs.82 crores. Your firm has been appointed the internal auditor by the Institute and during the verification of vouchers for fee receipts you noticed that cash receipts of approximately Rs.5 lakhs were directly credited in bank account instead of routing through cash account.</p> <p>Management explained that since the deposit slips used for fees received in cash or cheque are same, the accountant has erroneously shown them in the bank account, but he has always tallied the cash at day end and those cash receipts were deposited in the bank account same day. Whether the auditor will consider the discrepancy as material for audit report?</p>

	<p>a) The auditor should disclose the fact with his comment in the audit report as it is material for giving a true and fair view on financial statements.</p> <p>b) It is not a material discrepancy as the total receipts amount will remain the same and the fees collected in cash are deposited in bank account only.</p> <p>c) The auditor should verify that whether such cash receipts reflect in bank statement on the same day and cash ledger reconciles with the cash book on the respective dates or not. If it is followed, then auditor can include the matter in observation paragraph with his comments else disclose the matter as major internal control lapse.</p> <p>d) Auditor can ask the management to give a representation letter in writing</p>
IA.4	M19M
	<p>An educational institute was collecting fees from their students by cash/ cheque / draft and through net banking. Institute follows the policy to account for the fees received in the year of receipt only and for the cheques or drafts received but not deposited in bank or credited in bank account, should be shown in reconciliation statement. The internal auditor of branches noticed that at some branches only the fees received up to 25th March are accounted for in the same year and the receipts after that date are carried forward to be accounted for in the next financial year. The fees collected in these branches between 25th to 31st March amounted to Rs. 15 lakhs for the year 2017-18 and the collection for the financial year ended 31st March 2018 amounted to Rs. 115 crores. The auditor was of the view that it will not give a true and fair view on institute's revenue for the year. What do you think should be the next step of the auditor?</p>
	<p>a) The branches have accounted for those receipts in the next financial year so the auditor can ignore the observation.</p> <p>b) Auditor should report the matter in Executive Summary paragraph and highlight it as significant internal control lapse.</p> <p>c) Internal auditor can discuss the matter with the management to take a strict action against the branches not following institute's policy.</p> <p>d) Auditor should get the accounts modified and report the matter in action taken report.</p>
IA.5	M19M
	<p>As an internal auditor of LMN Bank Ltd., you have to verify the vouchers for the quarter ending 30th June 2018 of a branch at Ahmedabad. While verifying the vouchers, your team noticed that many of the bearer cheques processed by the teller have not been stamped as "paid", when discussed with the branch manager he stated the reason as ignorance on the part of official who has been assigned the duty of verifying the vouchers. As an internal auditor, what should be your next course of action:</p>
	<p>a) Considering the matter as immaterial, ignore it for the internal audit report.</p> <p>b) The Branch manager should be advised to rectify the discrepancy and the observation is closed in the internal audit report noting the corrective action taken.</p> <p>c) The matter should be immediately reported to those charged with governance of LMN Bank Ltd.</p> <p>d) Report the matter in Executive summary paragraph of Internal Audit Report as it is a significant internal control lapse.</p>
IA.6	S-1
	<p>ASOP Ltd is in the business of trading and manufacturing of FMCG. The turnover of the company has been increasing; however, the company has not been able to maintain its margins constant which are declining. The internal auditors of the company raised observations on the sales schemes of the company. As per the SOP, all schemes are required to be approved by the CEO of the company. However, per process it was observed that all schemes were approved by Chief Sales and Marketing Officer (CSMO). Review of sample 89 support schemes for the months of May 2018 and June 2018 highlighted that 19% (i.e., 17 schemes) were not approved by the CSMO. Management replied that there is a need for revision of SOP to reflect current paradigm. They shall amend the SOP to reflect the same. Please advise how should these matters be dealt by the internal auditors?</p>

	<p>a) Since the management has agreed on the observation of the internal auditor, internal auditor should drop these points.</p> <p>b) SOPs are not aligned to on-ground practices followed by concerned officials. SOPs should be updated and till then there should be a mechanism to follow the existing SOP.</p> <p>c) SOPs are not aligned to on-ground practices followed by concerned officials and the same should be reported by the internal auditor.</p> <p>d) Internal auditor should look at the materiality and basis that can ignore this as this will not have much impact.</p>
IA.7	S-1
	<p>BCP Ltd is in the business of manufacturing of cranes. It's a wholly owned subsidiary of a Chinese company and follows policies and procedures of the parent company. The company's annual turnover is INR 1000 crores.</p> <p>The company operates through dealers in India for making sales and pays incentives to them on the basis of delivery-based schemes and other schemes which are introduced from time to time. It was observed by the internal auditors of the company that incentives amounting to INR 10 crores were paid to dealers on account of delivery-based schemes for the month of October 2018. Review of cranes installations for the same period highlighted that incentive amounting to INR 30 lakhs had been paid against invalid claims.</p> <p>This was primarily because of absence of verification of the delivery claims with the installation data. Management replied that disbursement basis 100% verified installations has been defined as per the process. Revision in process has been done to prevent inordinate delays in reimbursements to the dealers.</p> <p>Please advise how should these matters be dealt by the internal auditors?</p>
	<p>a) Since the management has agreed on the observation of the internal auditor, internal auditor should drop these points.</p> <p>b) The impact of the matter is not significant and hence the same should be dropped.</p> <p>c) Incentive paid against non-genuine claims bear financial implications for the Company. Verified installation data should be taken for considering incentive payout. This matter should be highlighted by the internal auditor in his report.</p> <p>d) Internal auditor should ask the management to take corrective action and basis that drop this point as this is matter which is of financial implication which needs to be considered by the statutory auditors of the company.</p>
IA.8	S-2
	<p>BSF Limited is engaged in the business of trading leather goods. You are the internal auditor of the company for the year 2017-18. In order to review internal controls of the sales department of the company you visited the department and noticed the work division as follows:</p> <ol style="list-style-type: none"> 1. An officer was handling the sales ledger and cash receipts. 2. Another official was handling dispatch of goods and issuance of Delivery challans. 3. One more officer was there to handle customer/ debtor accounts and issue of receipts. <p>As an internal auditor do you think that there was proper division of work? If not, why?</p>
	<p>a) There is proper division of work as the dispatch and sales ledger maintenance work is allotted to different officials.</p> <p>b) Company has not done proper division of work as the receipts of cash should not be handled by the official handling sales ledger.</p> <p>c) Delivery challans should be verified by an authorized official other than the officer handling dispatch of goods.</p> <p>d) Both b and c are correct.</p>

IA.9	SM-22
	<p>RS Ltd was set up by Raj and Shanti in 1992. Initially the name of the company was Rajeev Private Limited. The company is currently into the business of aviation. The company has its head office at Chennai. The company has been in the same business since its incorporation but over the years had to shut down its business 3 times due to operational inefficiencies and resultant losses.</p> <p>In the year 2012, when the company restarted its operations after shutting that down third time, the company got funding from foreign investors. The management of the company increased its focus on the processes of the company and various checks and controls to improve the efficiency of the operations. This gradually resulted in improving the overall business culture of the company and gradually company started earning profits.</p> <p>In the year 2016, the company got converted into public company and got its name changed to RS Ltd. After that the company also tried to get listed on the New York Stock Exchange, but the market was not favourable, and the company instead got listed in India.</p> <p>The company kept increasing its focus on operational efficiencies which was also extended to all other processes of the company, most importantly, financial reporting which was not focused earlier by the management. The company also appointed a large firm of Chartered Accountants, KB & Co, as its internal auditors, who have had specialization in the same sector so that they can help the company to fill the gaps in the processes, wherever required.</p> <p>The company also appointed other consultants to improve on the operations and management functions. During the financial year ended 31 March 2018, the internal auditors of the company raised some observations which were discussed in detail with the management, primarily because the management was not agreeing to some of the points of the internal auditors. Subsequently in the financial year ended 31 March 2019, the management decided to set up its in-house internal audit function along with the CA firm, KB & Co. The idea was to do the work in-house and over the period, KB & Co can move out once the management is confident of the in-house internal audit function.</p> <p>Considering the above-mentioned facts, please provide your suggestions in respect of the following: The Standard Operating Procedures (SOP) for logistics process was not defined from the point of vehicle request received from the sales marketing department up to the bill's verification. The management explained that part of this process was developed, and remaining part was expected within next 3 months.</p>
	<ol style="list-style-type: none"> a) This is more of a documentation and hence not relevant for the management. b) Auditor should highlight and report this matter in his report. c) The matter which is already under development should not be considered by the auditor. d) Management needs to demonstrate the development process further and get this issue closed.
IA.10	S-1
	<p>DPP Ltd is in the business of software and is in growing phase. The company's turnover has been increasing year on year and profit margins are good. The company is also planning IPO in next 2-3 years depending on the market assessment at that point of time.</p> <p>It was observed by the internal auditors of the company that it does not have a documented Segregation of Duty (SOD) Matrix. Access controls were tested on basis of leading practices and following observations were identified:</p> <ul style="list-style-type: none"> • Users apart from Finance & Accounts team were having access to critical financial transactions. • Users apart from Quality department were having access to Quality Clearance transaction for raw material and finished goods. • Multiple users having access to Purchase Order Approval though it should be confined to HODs/Purchase Heads. <p>Management of the company explained to the auditor that the company is new and this may be required for a well-established company. Please advise.</p>

	<p>a) Generic accounts increase the risk associated with accountability and might lead to unauthorized access which could result into impact on financials. It will also affect the transparency and auditing trail that corresponds with the account. Hence there should be a proper SOD matrix.</p> <p>b) Generic accounts increase the risk associated with accountability and might lead to unauthorized access which could result into impact on financials. It will also affect the transparency and auditing trail that corresponds with the account. There should be a process of SOD though it is not necessary to document that.</p> <p>c) Management is right and accordingly it is not relevant for the internal auditor.</p> <p>d) Since currently the operations of the company are running smoothly, there is no need for complicating the internal business environment by setting up SOD matrix.</p>
IA.11	SM-22/M22M/N22M
	<p>Employees of GIG Ltd. have to travel frequently for business purposes, so the company entered into a contract with a Simony Travels Ltd. for managing booking, cancellation and other services required by their employees. As per contract terms, Simony travels has to raise its monthly bills for the tickets booked or cancelled during the period and the same are paid by GIG Ltd. within 15 days of the bill date. The bills raised by Simony travels were of huge amount, so the management of GIG Ltd. decided to get an audit conducted of the process followed for booking/ cancellation of tickets and verify the accuracy of bills raised by the travel agency. Which audit do you feel the management should opt for?</p>
	<p>a) Internal audit, as it relates to examine the operational efficiency of the organization.</p> <p>b) Management audit, as it is an audit desired by the management.</p> <p>c) Performance audit so as to assess the performance of the Simony travels appointed by the organization.</p> <p>d) Operational audit, as it is the audit for the management and involves verifying the effectiveness, efficiency and economy of operations done by the Simony travels for the organization.</p>
IA.12	SM-22
	<p>It was noted that during a particular period, cash in hand balance was higher than actual cash requirement at some locations. Ratio of cash expenses to closing cash balance during that period ranged from 7 to 84 times. Further the insurance cover was also not taken for the cash in hand kept at some locations. The management explained that this occurred only during a specified period and the insurance coverage plan was in place for the next year.</p>
	<p>a) Auditor should report this matter in his report.</p> <p>b) The management needs to explain the amount involved and if that is low then the auditor should ignore this.</p> <p>c) The cash balance should not be looked at by the internal auditor as this is more relevant from financial reporting.</p> <p>d) Internal auditor should only report about not availability of the insurance coverage to the management.</p>
IA.13	SM-22
	<p>It was observed that the credit limit assessment was not being performed for all the customers which could result in possibility of credit being given to customers with weak financial credibility leading to bad debts/ financial losses to the company.</p> <p>Management replied that they started the process of updation of credit limit in their ERP package which shall be completed in a month's time for major customers and for customers wherever temporary credit limit was defined. This would cover majority of exposure.</p>
	<p>a) Since the management has already taken remedial action, the internal audit should drop this point.</p> <p>b) Since this matter related to financials, this should be covered by the statutory auditors and not the internal auditors.</p>

	<p>c) The management said that statutory auditors have also raised this point and hence internal auditors should drop this.</p> <p>d) Internal auditors should report this irrespective of the fact whether statutory auditors covered this or not.</p>
IA.14	S-1
	<p>KSHTZ Ltd, listed company, is in the business of stainless steel and is more than 50 years old. The company's turnover is INR 11000 crores and has good profit margins which have been improving over the last 2 years. The company is also planning to raise funds in another 5-6 months. The company has SAP as its ERP package. Recently there has been a change in the internal audit team. The new internal auditors observed that there have not been any approved policies and procedure in place in their audit period from 1 April 2018 to 30 September 2018. For e.g.</p> <ul style="list-style-type: none"> • Information Security Policy and Procedure • Change Management Policy • User Access Management Policy. <p>Also, the policies and procedures do not have any version control, owner and review details, etc. Management of the company explained to the auditor that the company does not require this and hence this point should be ignored. Please advise.</p>
	<p>a) Absence of well-defined and approved policies and procedures may lead to management's intended practices and objectives not being clearly communicated to and understood by organization's employees and hence there should be approved policies and procedures in place.</p> <p>b) Absence of well-defined and approved policies and procedures may lead to management's intended practices and objectives not being clearly communicated to and understood by organization's employees. There should be a process to follow policies and procedures though it is not necessary to document that.</p> <p>c) Management is right and accordingly it is not relevant for the internal auditor.</p> <p>d) Absence of well-defined and approved policies and procedures has not impacted the company till date and if the management has reasons not to keep this then the same should not be considered by the internal auditor.</p>
IA.16	S-1
	<p>MNO Ltd borrowed an amount of INR 5 crores from a financial institution during the year. The company had existing borrowings of INR 1800 crores from various banks. However, the company took loan from a financial institution for the first time.</p> <p>The rate of interest charged on the new loan was based on market rate of interest and there was no security for this loan. During the course of the internal audit, internal auditor could not find the borrowing agreement for the new loan and raised this point with the management. The management explained that new loan was required for a special purpose for which all other documents are available for auditor to verify – disbursement proof in the bank statements, repayments. However, the agreement was not prepared because the person who arranged the loan from financial institution was known to the company and basis verbal understanding this has been done. Please advise internal auditor.</p>
	<p>a) Internal auditor should report this matter as this can be a serious deficiency.</p> <p>b) Because all other proofs are available, internal auditor should ignore this point.</p> <p>c) Internal auditor should report this matter to Reserve Bank of India.</p> <p>d) Considering the insignificant amount of this new loan as compared to total borrowings of the company, this may be ignored by the internal auditor.</p>

IA.17	S-1
	<p>NMP Ltd is in the business of retail and has been suffering losses. The turnover of the company has been same over the last 3-5 years. The company has Oracle as its ERP package. The internal auditor of the company observed that there is no process to review the supplier master on a periodic basis to identify the cases of incorrect updation / redundant supplier codes, key fields were not made mandatory in Oracle at the time of vendor empanelment and maker checker mechanism was also not enabled in Oracle.</p> <p>There is no mechanism to track redundant supplier codes and block them for further transactions. For 5,750 out of 9,076 active suppliers (63.3%), no transaction had occurred in the past 180 days. For 4,972 out of these 5750, no transaction occurred in the past 1 year. For 35 out of 9,076 active suppliers, the state code in the GST Identification Number (GSTIN) updated in the supplier master did not match the state mentioned in supplier's address. Payments valuing INR 27 crores have been made to such suppliers.</p> <p>Management explained that for redundant supplier codes, annual review will be conducted by the purchase team to identify such codes and post an approval from finance, purchasing will be blocked for the respective vendors. For GSTIN and State mismatch, management has already commenced assessment to identify the reasons for such errors and all such inconsistencies will be rectified in next 6 months. Please suggest in terms of reporting.</p>
	<ul style="list-style-type: none"> a) Management responses look reasonable and this matter should be dropped. b) The matter is more of related to hygiene and may not have any impact on the financial reporting and hence should be ignored. c) Internal auditor need to report this matter. d) Internal auditor should look at the significance of the matter. Material and on the basis of the same should decide about reporting this matter.
IA.19	SM-22
	<p>On review of procurement process, it was observed that the system was not enabled to show pending delivery of same material while raising a subsequent purchase order and the guidelines were not defined for review of open purchase orders and long pending orders.</p> <p>Management explained that this was due to lead time, locking in quantity/price, lead time to shipment, delays in delivery due to rake unavailability, failure of vendors to supply material as per timelines or quality etc and they will explore how system driven reporting can be done.</p>
	<ul style="list-style-type: none"> a) This was an operational challenge and hence out of the purview of internal auditor. b) This related to some system constraints and hence may be ignored by the internal auditor. c) The internal auditor needs to highlight this in his report. d) The management should draw a proper plan to take care of this. In any case there doesn't appear to be any financial impact due to this and hence the same should be ignored.
IA.20	S-1
	<p>ONZ Ltd is in the business of trading of consumer equipment's. The company's turnover is INR 347 crores. The company has not been doing well over the last few years due to which its profitability has gone down significantly. The company charges cartage/freight from its customers. Because there is a huge cost incurred in this respect, the company ensures that this amount is recovered on time.</p> <p>During the performance of the internal audit procedures, the internal auditors of the company found that in some cases freight was charged in the bills manually, rather than through the automated system of generating an invoice. Internal auditor raised this point to the management. The management replied that it happens only in exceptional cases that the freight is charged manually on automated generated invoice. How would you deal with this as an auditor?</p>
	<ul style="list-style-type: none"> a) Internal auditor should report this matter. b) Internal auditor should discuss with management about way forward and drop this point. c) Internal audit observation is not right. d) Internal auditor should ignore on the grounds of materiality.

IA.21	S-1
	<p>OQR Ltd is in the business of manufacturing of tractors and cranes. The company has a policy to provide aftersales services to the customers in respect of its products. Please advise what internal audit procedures should be considered by the internal audit team for the audit of after sales service.</p> <p>(i). Assess replacement trends, nature of failures and replacement policies. (ii). Examine the percentage of replacements of manufacturing defects vis-à-vis off-take. (iii). Examine which type of products/models has a higher failure record and why. (iv) Check whether any particular dealer's failure percentage vis-à-vis his turnover higher than the norm. If so, why. (iv). Check whether there are adequate technical audit on awards of replacement. (v). Evaluate the effectiveness of after-sales service with regard to its scope and consumer satisfaction. Is this service prompt and timely?</p>
	<p>a) i, ii, iii, iv and vi. b) i, iii, iv, v and iv. c) i, ii, iii, iv and v. d) i, ii, iii, iv, v and vi</p>
IA.22	S-2
	<p>Prakash & Co. Chartered Accountants are the internal auditor of Textbook Private Limited, for the year 2016-17. You have been instructed by your senior to check the internal controls for the investments done by the company during the year. While verifying the same you noticed that the property documents, share certificates and other investment documents have been kept in a safe custody locker, whose keys are kept with an authorised official of Accounts Department of the company and none other than that official has access to locker. As an internal auditor do you consider as material weakness in internal controls? If yes, how will you report the matter?</p>
	<p>a) It cannot be considered as material weakness in internal control as the company might not have any other reliable employee within in its staff members. b) The safe custody locker should always be under the control of two authorized officials. Therefore, the auditor should communicate such material weakness to the management or audit committee. c) It is not material weakness to be reported as giving the keys to two or more persons can lead a situation of confusion only. d) The auditor should discuss the observation with the management and there is no need of any written communication.</p>
IA.23	M19M
	<p>Prakash Limited has around 25 branch offices and all the branch offices were on company's own land and building. Company has the Policy that all the original title deeds for land and building owned by the company will be kept in the custody of authorised official at company's head office and a certified copy of the same is kept with the respective branch for verification. You have been appointed as the internal auditor for the branches of the company and during the course of audit you observed that the original title deeds of some of the branch office are kept in the branch under the custody of branch officials itself. What action will you take in such case?</p>
	<p>a) It is not a material discrepancy, so the auditor is not required to take any action in such case. b) The auditor should inform the internal auditor of the Head Office for the compliance of the same. c) The auditor should ask the branch office/official to send original title deed to the authorized official at Head Office of the company immediately and submit the Internal Audit Report once the confirmation received from Head office of company. d) As an internal auditor, report the matter in the Internal Audit Report and check for the compliance of the same in the next audit period.</p>

IA.24	S-1
	<p>PRP Ltd is a service company and is in the business of manpower consultancy. The company also has some manufacturing operations based out of Orissa. The annual turnover of the company is INR 1500 crores. The employee base of the company is very big. Please advise what internal audit procedures should be considered by the internal audit team for the audit of labour cost vis-à-vis wages.</p> <p>(i). Comparing the time booked in the booking sheets with clock cards on a sample basis.</p> <p>(ii). For a Piece rated wage job: a. In case of an in-process job, checking that the output booked in the booking sheet is in line with the standard output possible in the stated time. In case of a major variance, enquiring into its justification and authenticity. b. In case of a finished job, checking the output booked in the booking sheet with the actual output generated for the period as per the production sheet. c. In case of variances, enquiring into the same.</p> <p>(iii). In case of a person doing more than one piece - rated job during the period, checking that: Total Time Booked – Overtime Hours = Normal Hours Available in the Period.</p> <p>(iv). Test checking the following with the master lists: a. Grade booked b. Operator code c. Job code.</p> <p>(v). Average Earning Job a. Verifying on a sample basis that the job categorised as “average earning” job does not have any piece rate as per the master file. b. Comparing the standard time required for output booked as per the master file with the actual time booked. In case of a major variance, enquiring into its justification and authenticity. c. Test checking the calculation of wages as per the laid down formula for arithmetical accuracy.</p>
	<p>a) i, ii, iii, iv and v. b) i, ii, iii and iv. c) i, iii, iv and v. d) i, ii, iii and v.</p>
IA.25	M19M
	<p>Rajaram is appointed as internal auditor for a finance company with 15 branches across the states. He needs to conduct a branch visit in the coming week. Based on management inputs and past year audit reports, he has shortlisted four branches.</p> <p>Rajaram is not able to decide which branch visit he should prioritize as an internal auditor. Based on the branch information given below, which branch should Rajaram visit first?</p>
	<p>a) Sonpur – 15 people; two instances of fraud in the last year; regional manager presents in the branch for supervision</p> <p>b) Chandpur – 12 people; no fraud, no visit by internal auditor in last two years due to set processes.</p> <p>c) Rampur – 18 people; no fraud, 6 of 20 employees are new joiners in the last 6 months; newly opened branch.</p> <p>d) Laxmanpur–10 people; 1 fraud in the last year, all 10 are long term employees of the company; no audit visit in the last year.</p>
IA.26	S-1
	<p>SX Ltd is in the business of steel manufacturing having a turnover of INR 10,100 crores. The company has many plants. Each plant has a canteen and some income also gets generated in the canteen every year.</p> <p>Being the internal auditor, what internal audit procedures may be applied to audit the canteen income?</p> <p>(i). Check the records maintained for the canteen operations to support all financial transactions.</p> <p>(ii). Review the agreements and contracts in case the canteen is run by an outside party.</p> <p>(iii). Compliance with laws and regulations applicable for operation of canteen - The Prevention of Food Adulteration Act & Rules, 1954, The Shops and Establishment Act,</p>

	<p>FEMA, GST, Companies Act, etc.</p> <p>(iv). Verify leakages that may take place, e.g., by way of non-deductions from staff or excessive consumption of food in the mess, despite fixed menus which are helpful in providing some measurement of the likely consumption of food articles.</p> <p>Which of the above-mentioned procedures would be relevant?</p>
	<p>a) i, ii, iii and iv.</p> <p>b) i, ii and iii.</p> <p>c) i, ii and iv.</p> <p>d) i, iii and iv.</p>
IA.27	SM-22
	<p>The Board of Directors of Young Ltd., a listed company, appointed Mr. Old, a Cost Accountant (not in practice), to conduct internal audit of the functions and activities of the company. The job of Mr. Old would be of an independent management function, involving a continuous and critical appraisal of the functioning of the company with a view to suggest improvements thereto and add value to and strengthen the overall governance mechanism of the company, including the entity's strategic risk management and internal control system.</p> <p>However, some of the officers of the company are against the appointment of a Cost Accountant who is not in practice as an internal auditor. State whether those officers are correct or not in their view point by referring the provisions of the Companies Act, 2013?</p>
	<p>a) The viewpoint of the officers are correct because as per section 138 of the Companies Act, 2013, the internal auditor shall be a chartered accountant.</p> <p>b) The viewpoint of the officers are correct because as per section 138 of the Companies Act, 2013, the internal auditor shall a cost accountant in practice.</p> <p>c) The viewpoint of the officers are correct because as per section 138 of the Companies Act, 2013, the internal auditor shall be an employee of the company.</p> <p>d) The viewpoint of the officers are not correct because as per section 138 of the Companies Act, 2013, the internal auditor shall either be a chartered accountant or a cost accountant (whether engaged in practice or not), or such other professional as may be decided by the Board.</p>
IA.28	SM-22
	<p>The management's plan to phase out the CA firm by building up in-house internal audit team has been questioned by the statutory auditors saying this is not acceptable.</p>
	<p>a) Statutory auditors are correct.</p> <p>b) Statutory auditors should observe this for a period and if that is working fine then they should have no concern regarding this.</p> <p>c) The management has a discretion regarding this and hence statutory auditors are not correct.</p> <p>d) The management should take approval from relevant authority like MCA and then statutory auditors would have to accept this.</p>
IA.29	S-1
	<p>TPL Pvt Ltd is in the business of software and consultancy services. The annual turnover of the company is INR899 crores and profits are INR 199 crores. The company is planning to get listed in the overseas market within a year. If that doesn't happen then the company may look for funding through private placement.</p> <p>For some projects the company receives grants from government. These projects run up to 5-10 years. XYZ &Co LLP is the internal auditor of the company. Please advise what internal audit procedures should be considered by the internal audit team for the audit of grants received.</p> <p>(i). Check the donations received with the copies of receipts.</p> <p>(ii). Check sanction letters for any conditions attached with the donations.</p> <p>(iii). Examine the statements submitted for utilisation of grant.</p> <p>(iv). Verify the grants received from the Government or other authorities with reference to all</p>

	<p>the correspondences.</p> <p>(v). Verify all the bank statements of the company to trace the grants received and its utilization.</p>
	<p>a) i, ii, iii, iv and v.</p> <p>b) i, ii, iii and iv.</p> <p>c) i, iii, iv and v.</p> <p>d) i, ii, iii and v.</p>

IA.30	S-1
	<p>You are an article assistant in PQR & Associates. You are assigned an internal audit of X Ltd., a leading company in business of dairy products. While evaluating internal controls associated with related party relationships and transactions, you come across some discrepancies. What is the basic information to be collected by you related to related party relationships and transactions?</p> <p>(i). The identity of the entity's related parties including changes from the prior period</p> <p>(ii). The nature of the relationships between the entity and these related parties</p> <p>(iii). Understanding of business activities of related parties</p> <p>(iv). Whether the entity has entered into any transaction with these related parties during the period and, if so, the nature and extent, and the purpose of the transaction</p> <p>(v). Materiality of related party transactions.</p>
	<p>a) i, ii & v</p> <p>b) i, ii & iv</p> <p>c) ii, iii & iv</p> <p>d) iii, iv & v</p>

IA.32	S-2
	<p>You are the internal auditor of FCD Bank Limited for the year 2017-18 and the bank maintains all the data on computer. You are instructed by your senior to verify the loan against fixed deposits of the Navi Mumbai branch. As per the scope of audit, you need to ensure that proper lien has been marked on all the fixed deposits against which loan has been issued. Which of the following procedure you will follow for the same?</p>
	<p>a) Ensure that all the fixed deposit receipts are attached along with the approved loan documents.</p> <p>b) Ensure that all the fixed deposit receipts, against which the loan has been sanctioned, are discharged in favor of bank and check that the lien is marked in the computer software.</p> <p>c) Discuss the process followed for lien marking with the branch manager.</p> <p>d) Ensure that all the fixed deposit receipts, against which the loan has been sanctioned, are discharged in favor of bank, check that the lien is marked in the computer software and the fixed deposit should be kept separately with the branch manager.</p> <p>e) As a statutory auditor you should check the internal controls and internal audit reports only</p>

IA.33	M20M /N21M
	<p>What is the difference between management audit and operational audit?</p>
	<p>(a) Management audit is concerned with 'Quality of Operations' and it is 'Audit for Management', whereas Operational audit is concerned with 'Quality of managing' and it is 'Audit of Management'.</p> <p>(b) Management audit is concerned with 'Quality of Managing' and it is 'Audit of Management', whereas Operational audit is concerned with 'Quality of Operations' and it is 'Audit for Management'.</p> <p>(c) Management audit is concerned with 'Quality of Managing' and it is 'Audit for Management', whereas Operational audit is concerned with 'Quality of Operations' and it is 'Audit of Management'.</p> <p>(d) Management audit is concerned with 'Quality of Operations' and it is 'Audit of Management', whereas Operational audit is concerned with 'Quality of managing' and it is 'Audit for Management'.</p>

IA.34	M19M
	<p>"Management of HFC Ltd. noticed a sudden increase in expense under the head "wages & salaries" for the year 2015-16 and 2016-17. The management felt a need to get the management audit done in order to identify the reason for the sudden increase. Mr. Rash Gupta, Chartered Accountant was appointed as management auditor of the company on 15th April 2017. What areas do you think the auditor needs to verify for the purpose?"</p>
	<p>a) Check the payroll sheet prepared as per approved pay and allowances; verify the overtime sanctioned and authorised; and verify the payment process followed by the company for the payment of wages & salaries to employees.</p> <p>b) Overtime authorised and the payment done to employees are the main areas need to be verified by the auditor.</p> <p>c) Auditor should first understand the HR Policy of the company. Then verify all the authorised vouchers for overtime payments done during the year; verify the payroll preparation and reconcile the gross pay in terms of increments/ promotions & resignations; verify the appointments made during the year as per HR Policy and payments made to agencies providing contractual staff.</p> <p>d) Auditors need to verify the new appointments i.e. of company's payroll or outsourced staff and the overtime allowance paid to employees."</p>
IA.35	M21M/N21M/ SM-22
	<p>The firm from which you are pursuing your articleship training is the internal auditor of ABC Ltd. While conducting the audit of the medical expense reimbursements of the company employees, you come across some bills which are clearly not medical in nature, and some others which have been overwritten. During the discussions, the accountant points out that the employee is a functional head who enjoys a significantly higher medical expense reimbursement limit, and that you should ignore those bills as the amount is not material. You will:</p>
	<p>(a) Accept the explanation and the bills.</p> <p>(b) Recommend that the claim should be reduced, and clear guidelines should be issued to all employees on the matter, with a provision for disciplinary action.</p> <p>(c) Recommend that the employee be asked to submit fresh bills to avail the tax benefit.</p> <p>(d) Recommend that the employee be taxed on the aggregate amount of the suspect bills.</p>
IA.36	SM-22
	<p>RMI Ltd is a listed company in the business of manufacturing and trading of furniture and has annual turnover of INR 1,800 crore. The company's business has declined in the last 2 years. The internal auditors of the company have been very helpful in terms of coming up with observations/suggestions which have helped the management improve its operations over the years.</p> <p>The Company set up a plant around 4-5 years ago and the internal auditors have observed that the management needs to strengthen controls around compliance with Minimum Wages Act, 1948 and rules framed thereunder. Following were the observations of the internal auditors:</p> <p>Weekly offs not provided : As per Minimum Wages (Central) Rules, 1950, Rule 23 (2) "Employee shall not be required or allowed to work in a scheduled employment on the rest day unless he has or will have a substituted rest day for a whole day on one of the five days immediately before or after the rest day, provided that no substitution shall be made which will result in the employee working for more than ten days consecutively without a rest day for a whole day".</p> <p>However, on review of the attendance records of contractual workers, it was noted that contractual staff worked continuously for more than 10 days, ranging from 13 to 31 consecutive days.</p> <p>Working hours exceed the maximum limit of 12 hours a day: As per rule 24(2), "The working day of an adult worker shall be so arranged that inclusive of the intervals of rest, if any, shall not</p>

spread over more than twelve hours on any day". However, on a sample review of attendance records of workers for the month of April for contractual workers, it was noted that there were 24 exceptions wherein workers have worked more than 16 hours up to 23 hours a day.

Management explained to the auditors that this has been the practice in the area in which the company is operating. Further the management also told that they will review the working schedule of workers and ensure the compliance with the requirement, ensure that weekly offs and extended hours of labour will be as per legal requirements. Please suggest the internal auditors in respect of this matter.

- (a) This is a good recommendation by the internal auditors which the management plans to implement. However, it should not be reported as an observation.
- (b) If the management agrees to implement the corrective action by the current financial year end, internal auditor should not report this matter in his report.
- (c) Internal auditor observation should be reported in his report along with management comments.
- (d) Internal auditor should look at the significance of this matter and looking at that can ignore this point

IA.37	SM-22
	<p>Strong Steel Ltd. has reported a higher turnover of ₹650 crore in the year 2020-21 as compared to earlier years but its sales return has also increased to 10% from only 4% upto the last year. The management is concerned about the high sales returns and feels a need to get the operational audit done for sales and production department of the company. The company is also having an internal audit department in the company. Elaborate the possible reason/s, why management is getting operational audit done when internal audit has already been done for both the departments? (i) Because the management is not satisfied with the performance of the internal audit department. (ii) As the operational audit will be done by an independent person and will provide suggestions for improvement. (iii) Because management audit is qualitative in nature and will analyse all aspects of operations as per management policies, objectives and goals. (iv) Because internal audit is restricted to financial accounting and internal controls only.</p>
	<p>(a) (i) only. (b) (ii) & (iii) only. (c) (ii), (iii) & (iv) only. (d) (i), (ii), (iii) & (iv).</p>

INTERNAL AUDIT, MANAGEMENT AND OPERATIONAL AUDIT

IA.1	a
IA.2	c
IA.3	c
IA.4	d
IA.5	c
IA.6	b
IA.7	c
IA.8	d
IA.9	b
IA.10	a
IA.11	d
IA.12	a
IA.13	d
IA.14	a
IA.16	b
IA.17	c
IA.19	c
IA.20	c
IA.21	c
IA.22	b
IA.23	d
IA.24	b
IA.25	d
IA.26	a
IA.27	d
IA.28	c
IA.29	d
IA.30	c
IA.32	b
IA.33	c
IA.34	c
IA.35	b
IA.36	c
IA.37	c

Ch.16 DUE DILIGENCE, INVESTIGATION & FORENSIC AUDIT

DD.1	SM-22
<p>ARA & Associates is a partnership firm and has been in existence for the last 15 years. The firm is engaged in consultancy business related to various areas and has built a good name for itself over the period. Some of the clients of the firm are very old who have been continuing since its existence. The business of the firm has gone through various phases some of them were very bad. But currently the business is going very well and the firm is looking to expand its operations into different geographies. For this, the firm's management decided that some of its senior partners will move to new offices and new partners would be inducted.</p> <p>A team of new partners is in discussion with the senior old partners regarding their joining the firm.</p> <p>The new partners would be interested to know whether the terms offered to them are reasonable having regard to the nature of the business, profit records, capital distribution, personal capacity of the existing partners, socio-economic setting etc. and whether they would be able to derive continuing benefits in the shape of return of capital to be contributed and remuneration of services to be offered. In addition, they also want to ascertain whether the capital to be contributed by them would be safe and applied usefully or not. For this purpose, an investigation of the business of the firm was set up on behalf of these new partners.</p> <p>At the time of scrutiny of the record of profitability of the firm's business, the investigating accountant picked up records of last 4-5 years wherein he observed 2 years which were unusual because the profits during those 2 years were highly erratic and fluctuating. The investigating accountant, therefore, went into the profits of last 7-8 years to iron out the fluctuation. He also examined the provisions of the partnership deed particularly the composition of partners, their capital contribution, drawing rights, retirement benefits and goodwill. He also asked for details of jobs/ contracts in hand and the range of current clientele of the firm for his examination. Some of these procedures of the investigating accountant were not found appropriate by the senior partners of the firm and they advised the investigating accountant not to go beyond his scope.</p> <p>Please advise which of the above-mentioned procedures of investigating accountant is/are not appropriate and what improvements/ changes are required in his approach.</p>	<p>a) The investigating accountant should not have asked for the records of the profits of last 7-8 years as that would be too much of the information for his review. Also, the details of jobs/ contracts in hand and the range of current clientele of the firm are confidential and hence does not get covered in his scope.</p> <p>b) After finding 2 years which were unusual because the profits during those 2 years were highly erratic and fluctuating, the investigating accountant should have reported the matter to the new partners instead of asking for more details related to the profits of last 7-8 years. Also, he is not required to examine the provisions of the partnership deed as these details would have already been discussed with the new partners and they would have checked that.</p> <p>c) The procedures of the investigating accountant look completely reasonable considering his scope of work. Further, no changes are required in his work approach.</p> <p>d) At the outset, it can be said that investigation in the given case was not required. However, even if the new partners decided to carry out the investigation it should have been limited to mainly inquiry procedures by the investigating accountant. The investigating accountant could have also reviewed the manner of computation of goodwill which doesn't seem to have been performed on the basis of the above-mentioned facts.</p>

DD.2	SM-22
	<p>At the time of investigation, the investigation officer asked for the information of financials for the last 5-7 years. The management explained that there was no need for this investigation. Further the company has gone through the processes of due diligence and forensic audit in the past. Also the financial statements related to the period prior to investigation are audited and hence cannot be shared.</p>
	<p>a) Since the company went through audit process related to period prior to investigation, investigation should not have been set up.</p> <p>b) Since the company went through processes of due diligence in the past, investigation cannot be set up.</p> <p>c) Since the company went through processes of forensic audit in the past, investigation cannot be set up.</p> <p>d) The contention of the management is not correct.</p>
DD.3	SM-22
	<p>FTA Renewables S.p.A, is based in Europe and has operations in renewable energy. The company's operations are spread out in many countries. The company is also looking for various acquisitions. VAS Private Limited is a company based in Pune having operations into solar energy. The company's management projected that its operations should increase significantly and it should become one of the largest companies in the sector in the next five years on the basis of the management plan. However, due to some unforeseen circumstances, the promoters of the company are looking to sell their business.</p> <p>FTA Renewables S.p.A (acquirer) is interested in acquisition of VAS Private Ltd (target) and has started the discussions with the target company for the same.</p> <p>The due diligence of the target company is in process and the reviewer has come up with following observations so far:</p> <p>(i). The target company has certain balances with its related companies which are under reconciliation for long time.</p> <p>(ii). The target company had certain demands in respect of taxation matters on which the court has given a stay.</p> <p>(iii). The target company has some assets which are carried in its books at more than their current market value due to capitalization of foreign exchange loss as the same was permitted in Indian GAAP.</p> <p>(iv). The target company had two properties which were under litigation.</p> <p>(v). The target company had given guarantees which were not appearing the financial statements.</p> <p>Reviewer needs your advice that which of the above mentioned observations should be reported by him to the acquirer?</p>
	<p>a) i, ii, iv and v.</p> <p>b) ii, iii, iv and v.</p> <p>c) i, ii, iii, iv and v.</p> <p>d) i, iii, iv and v.</p>
DD.4	SM-22
	<p>IMIR Inc is a major technology, engineering, manufacturing and financial services conglomerate, with global operations having its registered office in US. The Company's manufacturing footprint extends across eight countries in addition to US. It has several international offices and a supply chain that extends around the globe.</p> <p>HIN Private Limited is a medium-sized Fast Moving Electrical Goods (FMEG) company and is also involved in power distribution equipment manufacturing. This company is based in India and enjoys a good market share in a wide spectrum of products like Industrial & Domestic Circuit Protection Devices, Cables & Wires, Fans, Commercial and Industrial Applications.</p> <p>IMIR Inc (Acquirer) is currently in talks to acquire HIN Pvt Ltd (Target). The initial price has been agreed for the acquisition of business based on net worth and profitability of the target company</p>

<p>with an assumption that all contingent liabilities of the target impacting its future business have been considered. The acquirer appointed a firm to carry out the financial due diligence review of the target company and advised that the firm should strictly work as per the scope.</p> <p>The firm during the course of its review found some show cause notices (which have not matured into demands) being issued against the target company. The firm also found that there could be a potential high value labour claim which may arise out of the negotiation which was ongoing between the target company and the labour union and the labour wage agreement was already expired.</p> <p>The firm discussed all these matters with the management of the target company. The target company confirmed that these matters are under discussion and was confident that these matters would not result into any liability and hence it did not consider the same in the initial price. The firm after its discussion with the target reported these matters to the acquirer.</p> <p>In the given situation, please suggest which one of the following should be correct?</p>	
<p>a) In the given case, the initial price between the target and the acquirer is already set which includes the impact of contingent liabilities. Hence the above-mentioned matters relating to show cause notice and labour claim should be ignored by the firm.</p> <p>b) In the given case, the initial price between the target and the acquirer is already set which includes the impact of contingent liabilities. However, since these matters have not been considered by the target company in the initial price, it would be appropriate to consider the impact of matter related to labour claim as that may result in liability in future but the matter related to show cause notice should be ignored by the firm.</p> <p>c) In the given case, the firm has gone beyond its scope of financial due diligence review. Financial due diligence review covers review of trading results, assets and liabilities and accounting policies and practices of the target company. The management of the target company should talk to acquirer so that the acquirer can ask the firm to limit its work as per the scope agreed.</p> <p>d) In the given case, even though the initial price between the target and the acquirer is already set but still the firm needs to look at any hidden liabilities which may arise in the two cases – show cause notices and labour claim. Accordingly, the firm has done the right thing by reporting these matters to the acquirer.</p>	
DD.5	S-1/M20M
<p>In an investigation relating to possible misappropriation of cash, the cashier says that every day the cash is counted and is reviewed by the Finance Head. Your specimen review indicates that the daily cash summary was not signed off by of the Finance Head. In this situation you should:</p>	
<p>a) conclude that the cashier is not telling truth.</p> <p>b) consider extending investigation procedures like corroborative enquiry with the Finance Head, review of appropriate daily cash summaries etc.</p> <p>c) conclude that the Finance Head is not a responsible person.</p> <p>d) conclude that daily cash summary is not relevant for the investigation.</p>	
DD.6	SM-22
<p>Karma Ltd got incorporated in 1980's as a private limited company and started its business into two segments – retail and construction. The two business activities were completely different but those were managed very well and the company grew significantly over a period of time. In year 2001, the company got converted into a public company and in 2008, the company also got listed on Bombay Stock Exchange.</p> <p>The turnover of the company was increasing; however, the margins were not increasing as per the expectations of the management and the management analysed this aspect and realized that the margins were not so high in case of retail segment.</p> <p>The company decided to focus more on construction business and include infrastructure in its line of business. This was also because of the fact that the government policies were favourable towards this sector. For this the company decided to sell its retail segment in 2015.</p>	

	<p>The new investor for the retail segment carried out a due diligence of the business involving various aspects and the company sold this segment in January 2016. Since the business of the company was infrastructure and it involved transactions with government officials also, the management suspected certain suspicious transactions for which it decided to carry out a forensic audit in the financial year 2016-17. Certain transactions were identified as per this audit on which the management worked and set up certain new processes and stringent controls so that the business can function in an efficient manner.</p> <p>In the financial year ended 31 March 2019, an investigation was set up against the company which impacted the company significantly in terms of its reputation and business. The company lost some significant contracts during the process of investigation itself.</p> <p>In the light of the above-mentioned facts, you are required to comment on the following: At the time of due diligence, the reviewer assessed the business feasibility also which included the assessment whether business would be more beneficial at its current location or not. The management of Karma Ltd did not understand this perspective. The management argued that the reviewer should not have this assessment as part of his scope as the company has been doing this business for many years at that location.</p>
	<ul style="list-style-type: none"> a) The contention of the management was correct. b) Reviewer was correct as due diligence covers assessment of business feasibility as well. c) Reviewer was correct as due diligence covers assessment of business feasibility as well, however, considering the company was doing this business for decades it should not have been carried out by the reviewer. d) Management was correct; however, the same thing should have been discussed with the investor as part of the sale contract.
DD.7	SM-22
	<p>The company has various litigations going on including those related to matter of taxation. The company had taken consultations in respect of those litigations from some renowned legal/ tax consultants. The reviewer for due diligence reviewed these consultation documents and also asked for the documents related to these matters. Further he also suggested that the positions taken by the company in some matters was not correct.</p>
	<ul style="list-style-type: none"> a) The reviewer needs to have independent assessment of legal/ tax cases and any outcome needs to be discussed with the management. b) The company can provide consultation documents but should not have provide any other document to the reviewer as those are confidential. c) The reviewer can review the consultation document but should ask for further details, if required. d) The company cannot provide documents of any other consultant to the reviewer. However, the documents related to cases can be shared with the reviewer.
DD.8	SM-22
	<p>The due diligence reviewer was given audited financial statement of the company for his financial review. However, the reviewer asked for certain documents pertaining to the year which was already audited by the statutory auditors of the company and the management of the company declined this request.</p>
	<ul style="list-style-type: none"> a) The management is correct. b) Reviewer can ask for documents even for the period for which audit is completed. c) Reviewer can ask for documents for the period for which audit is completed but he cannot give any assessment on that. That can be given for his documentation purpose only as per the requirements of the auditing standards. d) Reviewer cannot ask for documents for the period for which audit is completed. However, if the same document is required for further period for which audit is not completed, then the management should give him that document.

DD.9	M19M
	<p>Yellow Steels Ltd. was engaged in the business of manufacturing and selling steel products. The company was having sales offices at different locations in and outside India. The company decided to have a sales office at Kanpur on their own land. A Managing Committee of some officers from the company was formed in order to get a building constructed at land in Kanpur. Budget of Rs.35 crores was approved by the company for the same and it was proposed to complete the construction within two years. Rs. 32 crores were already released by the company within a year of start of the project and the managing committee raised a demand for Rs. 5crores for further payments to vendors. The management of Yellow Steels wants to get the verification done of all the expenses incurred on site and identify the reasons for increase in construction cost. Which of the following will suffice the purpose of management?</p>
	<p>a) The management should go for operational audit, as it will evaluate the effectiveness, efficiency and economy of operations done at the construction site.</p> <p>b) The management should get a Forensic Audit done in order to rule out any possibility of fraud or any other financial crime.</p> <p>c) A Financial Due Diligence is required to be done as no fraud has been reported and the management just want to analyze the books of accounts and other financial matters pertaining to financial matters at site.</p> <p>d) A management audit should be done to ensure that the increase in cost of construction is not due to any discrepancies in the formulation of objectives, plans and policies of the top management.</p>
DD.10	N19M
	<p>ZARI & Associates is a partnership firm and has been in existence for the last 15 years. The firm is engaged in consultancy business related to various areas and has built a good name for itself over the period.</p> <p>Some of the clients of the firm are very old who have been continuing since its existence. The business of the firm has gone through various phases some of them were very bad. But currently the business is going very well and the firm is looking to expand its operations into different geographies. For this, the firm's management decided that some of its senior partners will move to new offices and new partners would be inducted.</p> <p>A team of new partners is in discussion with the senior old partners regarding their joining the firm.</p> <p>The new partners would be interested to know whether the terms offered to them are reasonable having regard to the nature of the business, profit records, capital distribution, personal capacity of the existing partners, socio-economic setting etc. and whether they would be able to derive continuing benefits in the shape of return of capital to be contributed and remuneration of services to be offered. In addition, they also want to ascertain whether the capital to be contributed by them would be safe and applied usefully or not.</p> <p>For this purpose, an investigation of the business of the firm was set up on behalf of these new partners.</p> <p>At the time of scrutiny of the record of profitability of the firm's business, the investigating accountant picked up records of last 4-5 years wherein he observed 2 years which were unusual because the profits during those 2 years were highly erratic and fluctuating. The investigating accountant, therefore, went into the profits of last 7-8 years to iron out the fluctuation. He also examined the provisions of the partnership deed particularly the composition of partners, their capital contribution, drawing rights, retirement benefits and goodwill. He also asked for details of jobs/ contracts in hand and the range of current clientele of the firm for his examination. Some of these procedures of the investigating accountant were not found appropriate by the senior partners of the firm and they advised the investigating accountant not to go beyond his scope. In the given situation, which of the following is correct:</p>
	<p>a) The investigating accountant should not have asked for the records of the profits of last 7-8 years as that would be too much of the information for his review. Also the details of jobs/ contracts in hand and the range of current clientele of the firm are confidential and hence</p>

	<p>does not get covered in his scope.</p> <p>b) After finding 2 years which were unusual because the profits during those 2 years were highly erratic and fluctuating, the investigating accountant should have reported the matter to the new partners instead of asking for more details related to the profits of last 7-8 years. Also, he is not required to examine the provisions of the partnership deed as these details would have already been discussed with the new partners and they would have checked that.</p> <p>c) The procedures of the investigating accountant look completely reasonable considering his scope of work. Further, no changes are required in his work approach.</p> <p>d) At the outset, it can be said that investigation in the given case was not required. However, even if the new partners decided to carry out the investigation it should have been limited to mainly inquiry procedures by the investigating accountant. The investigating accountant could have also reviewed the manner of computation of goodwill which doesn't seem to have been performed on the basis of the above-mentioned facts.</p>
DD.11	SM-22
	<p>AB Ltd. which is based in Mumbai, is in the business of manufacturing leather products since 1995 and wants to acquire FC Leathers Private Limited, which is based in Pune and engaged in the business of selling leather products manufactured by different companies. Before acquisition AB Ltd. wants to get a due diligence review to be done of FC Leathers. AB Ltd. appointed S & S Associates for conducting overall due diligence of FC Leathers. During the review the accountant asked FC Leathers to provide financial projections of the company for next five years, but FC leathers refused to provide the same and claimed that financial projections is not a part of due diligence review. Whether the objection raised by the management of FC Leathers is correct? Give reason.</p>
	<p>(a) The objection raised by FC Leathers is correct, as due diligence doesn't include review of financial projections.</p> <p>(b) The objection raised by FC Leathers is not correct, as due diligence refers to an examination of a potential investment to confirm all material facts of the prospective business which a company wants to acquire and financial projection is a part of same.</p> <p>(c) The objection raised by FC Leathers is correct, as reviewer cannot comment on financial projections in his report.</p> <p>(d) The objection raised by FC Leathers is not correct, as the target company cannot refuse in providing any information required by the reviewer.</p>
DD.12	SM-22
	<p>In accordance with provisions of Companies Act, 2013 with respect to investigation into the affairs of a company, who can be appointed as an inspector?</p> <p>I. Minaj & Associates, a firm.</p> <p>II. CA Mehul.</p> <p>III. Rahim Pvt. Ltd, a body corporate.</p> <p>IV. XYZ & Partners LLP, a body corporate.</p>
	<p>(a) I, III & IV.</p> <p>(b) I only.</p> <p>(c) III & IV.</p> <p>(d) II only.</p>
DD.13	M22R
	<p>Which among the following are the skills to be possessed by M/s ABC & Associates as forensic auditors?</p>
	<p>(a) Criminology and evidence gathering.</p> <p>(b) Confidence and curiosity.</p> <p>(c) Discretion and creativity.</p> <p>(d) Inquisitiveness and persistence.</p>

DD.14	M22M
	<p>Bhagwan & Co. has received an order in writing from the Central Government, in respect of one of its clients, to carry out an investigation under section 210 of the Companies Act 2013. During the course of carrying out investigation as above, Bhagwan & Co. requires certain evidence from a place outside India in order to establish the correctness of an investment in the shares of a company outside India. What should be the procedure of Bhagwan & Co. to seek evidence from outside India for the investigation?</p>
	<p>(a) Seeking evidence from outside India for investment in shares outside India is outside the scope of investigation.</p> <p>(b) An application is to be made to the competent court in India by the inspector and such court may issue a letter of request to a court or an authority in such country for seeking evidence.</p> <p>(c) The evidence can be sought by electronic mail by writing to the concerned authorities of the entity outside India.</p> <p>(d) Powers of seeking evidence outside India is available only to an investigator under section 212 - Serious Fraud Investigation.</p>
DD.15	N22M
	<p>ABC & Co were appointed to conduct a forensic audit of XYZ Limited. After successfully conducting the forensic audit, ABC & Co prepared its report for the appointing authority. A copy of the report was also shared with the Board of Directors of the company. In the report, Forensic Auditors enumerated the findings of the investigation, including a summary of the evidence, a conclusion as to the amount of loss suffered as a result of the fraud and identification of those involved in fraud. The report also covered sections on the nature of the assignment, scope of the investigation, approach utilized, limitations of scope and opinions. Upon receiving the report, the Board of Directors raised objections as to how forensic auditors can mention the names of those who are involved in fraud. You as a Forensic Expert guide whether is it appropriate to mention the details of the person who are involved in fraud in the final report.</p>
	<p>(a) Report can include a section to identify those involved in fraud. This is recommendatory and in line with the appropriate practice of reporting.</p> <p>(b) Report should not contain such details till the time it is proved in a court of law.</p> <p>(c) Report can include a section to identify those involved in fraud but subject to prior approval of the Board of Directors of the company.</p> <p>(d) Report should not include a section to identify those involved in fraud as it is not permitted under SA 700.</p>
DD.16	N22M
	<p>JIN Ltd. which is based in Mumbai, is in the business of manufacturing leather products since 1995 and wants to acquire OM Leathers Private Limited, which is based in Pune and engaged in the business of selling leather products manufactured by different companies. Before acquisition JIN Ltd. wants to get a due diligence review to be done of OM Leathers. JIN Ltd. appointed S & S Associates for conducting overall due diligence of OM Leathers. During review, the accountant asked OM Leathers to provide financial projections of the company for next five years, but OM leathers refused to provide the same and claimed that financial projections are not part of due diligence review. Whether the objection raised by the management of OM Leathers is correct? Give reason</p>
	<p>(a) The objection raised by OM Leathers is correct, as due diligence doesn't include review of financial projections.</p> <p>(b) The objection raised by OM Leathers is not correct, as due diligence refers to an examination of a potential investment to confirm all material facts of the prospective business which a company wants to acquire and financial projection is a part of same.</p> <p>(c) The objection raised by OM Leathers is correct, as reviewer cannot comment on financial projections in his report.</p> <p>(d) The objection raised by OM Leathers is not correct, as the target company cannot refuse in providing any information required by the reviewer.</p>

DUE DILIGENCE, INVESTIGATION & FORENSIC AUDIT

DD.1	c
DD.2	d
DD.3	c
DD.4	d
DD.5	b
DD.6	b
DD.7	a
DD.8	b
DD.9	c
DD.10	c
DD.11	b
DD.12	d
DD.13	a
DD.14	b
DD.15	a
DD.16	b

Ch. 17 PEER REVIEW AND QUALITY REVIEW

PR.2	SM-22
	ICAI is responsible for monitoring the quality of the work of it's members for performing audits of financial statements?
	<ul style="list-style-type: none"> a) Yes - for all audits of financial statements. b) Yes - for all audits except those of listed entities. c) No, responsibility for quality assurance for all audit's rests with another body d) Yes - for all audits except those of unlisted entities
PR.3	N19M
	Rana & Co LLP is a large firm of Chartered Accountants based out of Delhi-NCR. During the financial year ended 31 March 2019, the firm Rana & Co LLP got an intimation for the peer review on 1 July. The entire peer review process including on-site review got completed. The peer reviewer did not share any of his observations with Rana & Co LLP as draft and final report was submitted to the firm.
	<ul style="list-style-type: none"> a) Peer reviewer need not share any draft report with the firm if there are no observations. b) Even the final report is not required to be submitted to the firm. c) Peer reviewer needs to share draft report with the firm before finalization. d) There are no reports in case of peer review. On completion, a certificate to that effect is issued.
PR.4	SM-22
	What types of engagements are not included in the scope of the quality assurance review program?
	<ul style="list-style-type: none"> a) Financial statement audit - listed entities (minimum requirement) b) Financial statement audit - audit of other than listed entities c) Other services (e.g., review, compilation) d) Insolvency
PR.5	N19R
	"Shivam& Co LLP is a large firm of Chartered Accountants based out of Delhi-NCR. During the financial year ended 31 March 2019, the firm Shivam& Co LLP got an intimation for the peer review on 1 July 2018. The process of peer review got started and completed on 15 September 2018 which included the on-site review from 1 August 2018 to 16 August 2018.
	Shivam & Co LLP objected to the time taken by the Peer Reviewer on-site, however, as per Peer Reviewer, the entire review process got completed within 90 days from the date of notifying the firm about its selection for review.
	<ul style="list-style-type: none"> a) The time for complete review should be completed within 120 days. b) The time for on-site review should not have extended beyond 10 working days. c) The time for complete review should be completed within 60 days. d) The time for on-site review should not have extended beyond 6 working days."
PR.6	N20M
	"MMH & Co, is a large firm of Chartered Accountants having 10 partners and 7 branches across India. The firm had undertaken Statutory Audit of the branches of some insurance companies and public-sector banks. They were also the Central Statutory Auditors of a major Private Sector Bank in South India. On 1st September,2019, the firm got an intimation from Peer Review Board ('Board') regarding the peer review of the firm. The Board recommended some names of

	<p>reviewers. The practice unit, MH & Co('Firm'), selected CA. R and intimated the name to the Board. CA. R along with his qualified assistant did an on-site review. The Firm was not happy with the preliminary report issued by the reviewer arguing that the findings of the reviewer were baseless. The managing Partner of the firm wrote a letter to the Peer review Board doubting the eligibility of the reviewer.</p> <p>In this backdrop, you are required to advise on the following matter.</p>	
	<p>a) A Peer Reviewer shall be a Chartered Accountant having at least 15 years of experience in practice and should have conducted audit of Level I entities for at least 7 years.</p> <p>b) A Peer Reviewer shall be a Chartered Accountant having at least 10 years of experience in practice and should have conducted audit of Level I entities for at least 7 years.</p> <p>c) A Peer Reviewer shall be a Chartered Accountant having at least 15 years of experience in practice and should have conducted audit of Level II entities for at least 7 years.</p> <p>d) A Peer Reviewer shall be a Chartered Accountant having at least 10 years of experience in practice and should have conducted audit of Level II entities for at least 7 years"</p>	
PR.7		M22R
	<p>As per the Quality Review Board, the term technical standards in the context of Chartered Accountants Rules 2006, includes which among the following?</p>	
	<p>a) ICDS notified under Income Tax Act, 1961.</p> <p>b) Accounting standards notified under Companies Act, 2013.</p> <p>c) Guidance notes on accounting and auditing matters issued by C&AG.</p> <p>d) Notifications/ Directions issued on accounting and auditing matters issued by RBI/ SEBI/ other regulatory bodies.</p>	
PR.8		N21M
	<p>Mr Q, a peer reviewer appointed for the firm ABC & Co. for the period under review starting from 2017 -18 to 2019-2020 decided to select 5 samples of audit engagement. All samples were appropriate, and no deviations or issues were identified in the review with respect to those samples. Post that, Mr Q reviewed the training & development program for the staff, article assistant and other assistant and he found that the training and development program were not appropriate and rather outdated. The staff, article assistant and other assistant placed on the audits were not trained related to the specific matters of the industries to which the audit client belonged. As a result, the peer reviewer included a comment in the preliminary report regarding training programmes for staff (including articulated assistant and other audit assistants) concerned with assurance functions, including availability of appropriate infrastructure. Upon receiving such preliminary report, the Practice Unit raised concerns that the said comment of peer reviewer is related to the matter which is out of scope of the peer review.</p> <p>Kindly decide whether the comment of peer reviewer on the training programmes for staff (including articulated assistants and other audit assistants) concerned with assurance functions is within the scope of peer review or not?</p>	
	<p>a) The Review shall only cover Compliance with Technical, Professional and Ethical Standards, Quality of reporting, Systems and procedures for carrying out assurance services, Compliance with directions and / or guidelines issued by the Council to the Members and Compliance with directions and / or guidelines issued by the Council in relating to article assistants and / or audit assistants. Hence the comment of peer reviewer on the training programmes for staff (including articulated and other assistants) concerned with assurance functions is not within the scope of peer review.</p> <p>b) The Statement defines the scope of peer review which revolves around compliance with technical, ethical and professional standards; quality of reporting; office systems and procedures with regard to compliance of assurance engagements; and, training programmes for staff including articulated and audit assistants involved in assurance engagements. Hence the comment of peer reviewer on the training programmes for staff (including articulated and other assistants) concerned with assurance functions is within the scope of peer review.</p> <p>c) The Statement of Peer Review makes it clear that the peer review, "does not seek to redefine</p>	

the scope and authority of the Technical, Professional and Ethical Standards specified by the Council but seeks to enforce them within the parameters prescribed by the Technical Standards but only seeks to ensure that they are implemented, both in letter and spirit. Therefore, it is evident that the scope of peer review is restricted to the compliance Technical, Professional and Ethical Standards

- d) The scope of Peer Review is decided by the Practice Unit and Peer Reviewer Mutually and hence if the Practice Unit is contending that it is out of scope then it should be considered as out of scope.

PR.9	N22R
In case of peer review, which among the following the review shall covered?	
(a) Compliance with legal regulations governing the firm (b) Check whether the qualification of the articled assistants and other staffs are sufficient to be employed (c) Compliance with tax regulations of the firm, which includes filing IT return of the firm, payment of tax, etc. (d) Training program for staff concerned with assurance function, including availability of infrastructure	

PEER REVIEW AND QUALITY REVIEW

PR.2	a
PR.3	c
PR.4	d
PR.5	d
PR.6	b
PR.7	b
PR.8	b
PR.9	d

Ch. 18 PROFESSIONAL ETHICS

Part 1-Introduction & CA Act

PE.5	N19M
	<p>One of your audit client Vernon Co with a year ending 31 March 2019 is planning to prepare the financial statements from the next year as per Indian Accounting Standards (Ind AS). The finance director of Vernon Co has contacted the audit engagement partner, asking if your firm can provide training on Ind AS to the accounts department of the entity. This will help them to understand all the provisions of Ind AS and the transition process will be easier.</p> <p>Which of the following options needs to be considered by the audit engagement partner?</p>
	<ul style="list-style-type: none"> a) The issue is whether there is a self-interest threat, as the auditor will receive separate training fees for the service provided. The audit partner should decline the training assignment. b) The issue is whether the audit firm would be likely to possess the requisite competence to provide such training to the staff of the entity. The audit partner should decline not all the qualified people are good trainers. c) The audit partner could go ahead with the training service and disclose the fact in its audit report about the service provided during the period. This will safeguard and reduce the threat to an acceptable level. d) The audit partner needs to assess the materiality of the figure, and the degree of subjectivity involved. If it considers that safeguards like using separate personnel, could reduce the threat to an acceptable level, then it can go ahead with both the audit and the training assignment.
PE.8	S19M/M19M
	<p>You are a manager in the audit department of Narang & Co, and you are dealing with several ethical and professional matters raised at recent management meetings, all of which relate to audit clients of your firm:</p> <p>One of your client Bernwood Co has a year ending 31 March 2018. During this year, the company established pension plan for its employees, and this year end the company will be recognising for the first time a pension deficit on the balance sheet, in accordance with Ind AS 19 Employee Benefits. The finance director of Bernwood Co has contacted the audit engagement partner, asking if your firm can provide an actuarial valuation service in respect of the amount recognised.</p> <p>Which of the following options needs to be considered by the audit engagement partner?</p>
	<ul style="list-style-type: none"> a) The issue is whether there is a self-review threat, as the valuation of the amount recognized would be recorded in the financial statements. The audit partner should decline the work of valuation service. b) The issue is whether the audit firm would be likely to possess the requisite competence to provide such a valuation service. The audit partner should decline since not professionally qualified to provide the valuation service. c) Narang & Co. needs to assess the materiality of the figure, and the degree of subjectivity involved. If it considers that safeguards like using separate personnel, performing a second partner review, could reduce the threat to an acceptable level, then it can go ahead with both the audit and the valuation service. d) The audit partner could go ahead with the valuation service and disclose the fact in its audit report about the service provided during the period. This will safeguard and reduce the threat to an acceptable level.

PE.13	M21M/SM-22/M23M
<p>KB Associates a chartered accountant firm has been appointed as an auditor of the company for the financial year 2020-21. It consists of two partners CA K & CA B. CA K is brother of the father of the finance director of the company. CA B is an old friend of the finance director of the company. What kind of ethical threat is associated with appointment of KB Associates as an auditor of ABC LTD.?</p>	
<p>(a) Self Interest Threat. (b) Advocacy Threat. (c) Familiarity Threat. (d) Self-Review Threat.</p>	

Ch. 18 PROFESSIONAL ETHICS

Part 2 – First Schedule

PE.1	N19M
	<p>CA Ram is practicing in the field of financial management planning for over 12 years. He has gained expertise in this domain over others. Mr. Ratan, a student of Chartered Accountancy course, is very much impressed with the knowledge of CA. Ram. He approached CA. Ram to take guidance on some topics of financial management subject related to his course. CA. Ram, on request, decided to spare some time and started providing private tutorship to Mr. Ratan along with some other aspirants for 4 days in a week and for 3 hours in a day. However, he forgot to take specific permission for such private tutorship from the Council. Later on, he came to know that the Council has passed a Resolution under Regulation 190A granting general permission (for private tutorship, and part-time tutorship under Coaching organization of the Institute) and specific permission (for part-time or full time tutorship under any educational institution other than Coaching organization of the Institute). Such general and specific permission granted is subject to the condition that the direct teaching hours devoted to such activities taken together should _____ in order to be able to undertake attest functions.</p>
	<p>a) not exceed 25 hours a week b) not exceed 21 hours a week c) not exceed 25 hours a month d) not exceed 21 hours a month</p>
PE.2	S-1
	<p>CA. D, a chartered accountant in practice availed of a loan against his personal investments from a bank. He issued 2 cheques towards repayment of the said loan as per the instalments due. However, both the cheques were returned back by the bank with the remarks "Insufficient funds". As per Chartered Accountants Act, 1949, under which clause CA D is liable for misconduct.</p>
	<p>a) Clause (6) of Part I of the First Schedule b) Clause 2 of Part I of the Second Schedule c) Clause 12 of Part I of the First Schedule d) Clause 2 of Part IV of the First Schedule</p>
PE.3	SM-22
	<p>CA. Intelligent, a Chartered Accountant in practice, provides part-time tutorship under the coaching organization of the Institute. On 30th June, 2019, he was awarded 'Best Faculty of the year' as gratitude from the Institute. Later on, CA. Intelligent posted his framed photograph on his website wherein he was receiving the said award from the Institute. As per Chartered Accountants Act, 1949, under which clause Intelligent is liable for misconduct .</p>
	<p>a) Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949 b) Clause (9) of Part I of the Second Schedule to the Chartered Accountants Act, 1949 c) Clause (7) of Part I of the First Schedule to the Chartered Accountants Act, 1949 d) Clause (8) of Part I of the Second Schedule to the Chartered Accountants Act, 1949</p>
PE.11	N20M
	<p>"Letter head of CA. Panaj, a Practicing Chartered Accountant, is reproduced below: PANAJ De PANKAJ ACS, LLB, FCA Chartered Accountant & Member of parliament As per Chartered Accountants Act, 1949 you are required to choose the appropriate answer :</p>
	<p>a) As per clause 7 of Part I of First Schedule to the Chartered Accountants Act, 1949 he shall not use the designation 'Member of the Parliament' in addition to that of a 'Chartered Accountant.'</p>

- b) He shall not use the designation 'LLB' in addition to that of a 'Chartered Accountant' as he has not enrolled as an Advocate as per clause 7 of Part I of First Schedule to the Chartered Accountants Act, 1949.
- c) He can use designations such as Member of Parliament, Member of the Legislative Assembly in addition to that of a 'Chartered Accountant' as these are specifically allowed as per clause 7 of Part I of First Schedule to the Chartered Accountants Act, 1949.
- d) As per clause 7 of Part I of First Schedule to the Chartered Accountants Act, 1949 he can designate himself as 'Chartered Accountant and Company Secretary' as he is a member of the Institute of Company Secretaries of India also."

PE.12	M21M/SM-22
	<p>CA Dharma has established another branch in the same city. Branch was inaugurated on 3rd October 2020 and on 4th October 2020, friends of CA Dharma gave an article on the front page of local newspaper congratulating CA Dharma on opening of another branch which also includes half page photograph of CA Dharma with his consent. In your opinion was the news in newspaper a misconduct on the part of CA Dharma and what actions can be taken against him?</p> <p>(a) Yes, it is a misconduct under clause 8 of Part I of Second Schedule and he can be reprimanded, his name can be removed from the register of members for 3 years and fine upto Rs. 5,00,000.</p> <p>(b) Yes, it is a misconduct under under clause 5 Part I of First Schedule and he can be reprimanded, his name can be removed from the register of members for 3 months and fine upto Rs. 1,00,000.</p> <p>(c) Yes, it is a misconduct under clause 7 of Part I of First Schedule and he can be reprimanded, his name can be removed from the register of members for 3 months and fine upto Rs. 1,00,000.</p> <p>(d) Yes, it is a misconduct under clause 8 of Part I of Second Schedule and he can be reprimanded, his name can be removed from the register of members permanently and fine upto Rs. 5 ,00,000.</p>

PE.16	N22R
	<p>Mr. B one of the partners of the firm is facing a dilemma as to whether the firm BMY LLP should accept the appointment as Statutory Auditors of M/s Foam Limited wherein Mr. B had sent a communication in writing addressed to the outgoing auditor Mr. Dalai under certificate of posting and the outgoing auditor has sent an acknowledgement vide their official email, but this email address of the outgoing auditor is not registered with the Institute of Chartered Accountants of India. Mr. B is of the opinion that this is not positive evidence of delivery and violates the provisions of Code of Ethics if the firm accepts the audit assignment. With respect to the dilemma being faced by Mr. B, partner of the firm regarding acknowledgment of the communication from the retiring auditor's vide their official email is not positive evidence of delivery?</p> <p>(a) The dilemma of Mr. B is correct as it is not positive evidence of delivery.</p> <p>(b) The dilemma of Mr. B is not correct as it is positive evidence of delivery as the same is received from the official email of the outgoing auditor, as per the Code of Ethics.</p> <p>(c) The dilemma of Mr. B is not correct as statutory auditors are not required to communicate with the retiring or outgoing auditors in this case.</p> <p>(d) The dilemma of Mr. B is correct as the email address of the outgoing auditor from which acknowledgement has come is not registered with the Institute of Chartered Accountants of India.</p>

PE.17	M23R
	<p>Mr. D is a practising Chartered Accountant from Mangalore. He has been practising as a sole proprietor for past two decades. Mr. D's daughter Ms. S is a newly qualified chartered accountant, who cleared the final exam just three months ago. Immediately after qualifying, she also wanted to set up a sole proprietary concern and practice on her own. After setting up the firm, she printed her own visiting card as follows:</p> <div style="border: 1px solid black; padding: 5px; margin: 10px 0;"> <p>S & Co., Chartered Accountants Proprietrix.: Ms. S, FCA, B. Com Office: JJ Nagar, Mangalore. Phone: 9123456780</p> </div> <p>In view of above visiting card, whether Ms. S will be held guilty of professional misconduct? If so, under which clause?</p>
	<p>(a) No, Ms. S won't be guilty of misconduct. As per recent decision of the council, a CA in practice can give any details in the visiting card, except for vision of the firm.</p> <p>(b) Yes, Ms. S will be guilty of professional misconduct as per Clause 7 of Part I of First Schedule.</p> <p>(c) Yes, Ms. S will be guilty of professional misconduct as per Part III of Second Schedule.</p> <p>(d) Yes, Ms. S will be guilty of professional misconduct as per Clause 1 of Part III of First Schedule.</p>

Part 3 – Second Schedule

PE.4	SM-22
	<p>Mr. Hopeful, an aspiring student of ICAI, approached Mr. Witty, a practicing Chartered Accountant, for the purpose of article ship. Mr. Witty, the principal, offered him stipend at the rate of ₹ 2,000 per month to be paid every sixth month along with interest at the rate of 10% per annum compounded monthly to compensate such late payment on plea that cycle of professional receipts from clients is six months. Mr. Hopeful agreed for such late payment in the hope of getting extra stipend in the form of interest. Mr. Witty, however, used to disburse salary to all of his employees on time. As per Chartered Accountants Act, 1949, under which clause Mr. Witty is liable for misconduct.</p>
	<p>a) Clause (1) of Part II of the Second Schedule to the Chartered Accountants Act, 1949 b) Clause (4) of Part I of the Second Schedule to the Chartered Accountants Act, 1949 c) Mr. Witty is paying interest thus he is not liable for misconduct. d) Clause (10) of Part I of the Second Schedule to the Chartered Accountants Act, 1949</p>
PE.15	SM-22 / N21M
	<p>Mr. Chitragupta Bakutra, a Chartered Accountant is a sole proprietor of Bakutra & Co. which has been appointed as a statutory auditor of Kraftic Ltd. from FY 2020-21, for a term of 5 years. Mr. Chitragupta is a director simplicitor of Kalavitur Ltd. which acquired 55% shares of Kraftic Ltd., for the first time, on 25th May, 2020. Mr. Chitragupta's term as a director of Kalavitur Ltd. got expired on 31st March, 2021 and he was not re-appointed. Kalavitur Ltd. made a proposal to Mr. Chitragupta for appointing Bakutra & Co. as its statutory auditor from FY 2020-21, for a term of 5 years, which was accepted by Mr. Chitragupta. Is there any violation of the Code of Ethics by Mr. Chitragupta Bakutra?</p>
	<p>a) Yes, as he cannot be continued to be director of a company, the subsidiary of which he is an auditor and also he cannot accept appointment of auditor of a Kalavitur Ltd. without finishing of the cooling period for the same. b) There is no bar in being a director simplicitor of a company, the subsidiary of which the person is an auditor. However, by accepting appointment as an auditor of Kalavitur Ltd. without finishing of the cooling period for the same, he has violated the Code of Ethics. c) Yes, as he cannot be continued to be director of a company, the subsidiary of which he is an auditor. However, there is no bar in becoming an auditor of a company of which a person has been its director. d) There is no bar in being a director simplicitor of a company, the subsidiary of which the person is an auditor and also there is no requirement of following the cooling period by a director simplicitor who on expiry of its term, wants to become auditor of such company.</p>

Part – 4 Council Guidelines & Others

PE.9	SM-22
	<p>Sista and Chartered Accountants were already appointed for stock audit by the audit committee for the five branches, so whether Sista and Chartered Accountants are authorised to accept the appointment as statutory auditors for the same branches?.</p> <p>a) Sista and Chartered Accountants cannot accept the appointment as it was not offered by the audit committee and Bank's management is not authorized to appoint the auditors.</p> <p>b) Sista and Chartered Accountants can accept the appointment as they were already appointed for the stock audit of those branches by the audit committee.</p> <p>c) Sista and Chartered Accountants can accept the appointment as they have been appointed statutory auditors for the same five branches for which they were conducting stock audit.</p> <p>d) Sista and Chartered Accountants cannot accept the appointment as the audit firms should not undertake statutory audit assignment while they are associated with internal assignments in the Bank during the same year.</p>
PE.10	SM-22
	<p>Whether the Bank's Management is authorise to appoint and fix the remuneration of statutory auditors without consulting the Audit Committee of the Board of Directors or members in Annual General Meeting?.</p> <p>a) Bank's Management cannot appoint or fix the remuneration of the statutory auditor unless the same is passed by a resolution in the Annual General Meeting of the Bank.</p> <p>b) Bank's Management can appoint and fix the remuneration of statutory auditors only in consultation with the Audit Committee of the Board of Directors.</p> <p>c) Sista and Chartered Accountants were already appointed for stock audit by the audit committee, therefore only audit committee was authorized to appoint or fix their remuneration as statutory auditors.</p> <p>d) Sista and Chartered Accountants were already appointed for stock audit by the audit committee, so the Bank's Management is authorized to appoint the same firm as the statutory auditors without consulting the audit committee or members in the Annual General Meeting.</p>
PE.14	M21M
	<p>Mr. R, (friend of Mr. P) a CA in practice invited Mr. P to set up a 'Network Firm' along with 2 more friends. All the four auditors agreed to the same and decided to start a network firm by the name M/s RP & Co. However, one of the auditors suggested that they cannot use the term '& Co.' and it needs to be changed. But Mr. R informed that there is no such Regulation regarding the firm's name. Which among the name shall be suitable to the newly started 'Network Firm', in accordance with the provisions of Chartered Accountant Act and Regulation?</p> <p>(a) RP and Co.</p> <p>(b) RP & Associates.</p> <p>(c) RP and Networks.</p> <p>(d) RP & Affiliates.</p>

PROFESSIONAL ETHICS

Part 1

PE.5	d
PE.8	a
PE.13	c

Part 2

PE.1	a
PE.2	d
PE.3	a
PE.11	a
PE.12	c
PE.16	b
PE.17	d

Part 3

PE.4	a
PE.15	a

Part 4

PE.9	d
PE.10	a
PE.14	d

Ch 19 MISCELLANEOUS

MISC.1	SM-22
	<p>Re-opening of accounts on Court's or Tribunal's orders: Section 130 of the Companies Act, 2013 states that a company shall not re-open its books of account and not recast its financial statements, unless an application in this regard is made by the Central Government, the Income-tax authorities, the Securities and Exchange Board of India (SEBI), any other statutory regulatory body or authority or any person concerned and an order is made by a court of competent jurisdiction or the Tribunal to the effect that Jain Ltd. has an annual turnover of ₹350 crores and has been into losses for the last 2 years.</p> <p>The operations of the company are good. Due to some technology changes, the company started facing competition and hence started incurring losses. The company plans to revive in the next 1-2 years with the improvements in its processes. During the year ended 31 March, 2021, the management of the company came across certain transactions relating to the financial year ended 31 March 2020 which were erroneously missed to be accounted for. This would result into losses and hence the management is considering to take this to the right financial year and for that purpose to re-open its accounts for the financial year ended 31 March 2020. Please advise.</p> <p>a) The position of the management is correct. b) The action of the management is correct, however, the reason behind reopening the accounts of last year does not seem to be correct. c) The action of the management would have been correct had it been advised by the auditors of the company and for the same management should have taken approval from SEBI. d) The action of the management is not correct.</p>
MISC.2	N20M
	<p>"In accordance with provisions of Companies Act, 2013 with respect to investigation into the affairs of a company, who can be appointed as an inspector? I. Raj & Associates, a firm II. CA Rahul III. Mihim Pvt. Ltd, a body corporate IV. ABC & Partners LLP, a body corporate</p> <p>a) I, III & IV b) I only c) III & IV d) II only"</p>
MISC.3	M19M
	<p>Garg Ltd. has declared dividend of 9% on 15 April 2018, for the year ended 31 March 2018. The company has not paid or the warrant in respect thereof has not been posted till date 30 June 2018 to any shareholder whose is entitled to the payment of the dividend. Which of the following is correct in respect of the effect of non-payment of dividend?</p> <p>a) Garg Ltd. shall be liable to pay simple interest of 15% p.a. during the period for which the default continues. b) Garg Ltd. shall be liable to pay simple interest of 18% p.a. during the period for which the default continues. c) Garg Ltd. can still make the payment of dividend by 31 July 2018, with no interest applicable. d) Garg Ltd. can still make the payment of dividend by 15 July 2018, with no interest applicable.</p>

MISC.4	M21R									
<p>Below is an extract from the list of supplier statements as at 31st March 2020 held by the Company and corresponding payables ledger balances at the same date along with some commentary on the noted differences:</p> <table border="1"> <thead> <tr> <th>Supplier</th> <th>Statement balance Rs '000</th> <th>Payables ledger balance Rs '000</th> </tr> </thead> <tbody> <tr> <td>Cete Company</td> <td>80</td> <td>60</td> </tr> <tr> <td>Lice Company</td> <td>185</td> <td>115</td> </tr> </tbody> </table> <p>The difference in the balance of Cete Company is due to an invoice which is under dispute due to defective goods which were returned on 30th March 2020. Which of the following audit procedures should be carried out to confirm the balance owing to Cete Company?</p> <p>(I) Review post year-end credit notes for evidence of acceptance of return. (II) Inspect pre year-end goods returned note in respect of the items sent back to the supplier. (III) Inspect post year-end cash book for evidence that the amount has been settled.</p>		Supplier	Statement balance Rs '000	Payables ledger balance Rs '000	Cete Company	80	60	Lice Company	185	115
Supplier	Statement balance Rs '000	Payables ledger balance Rs '000								
Cete Company	80	60								
Lice Company	185	115								
<p>(a) 1, 2 and 3. (b) 1 and 3 only. (c) 1 and 2 only. (d) 2 and 3 only.</p>										

MISC.5	M21M/SM-22																								
<p>The audit team has obtained the following results from the trade receivables circularization of Nemi Co for the year ended 31 March 2021.</p> <table border="1"> <thead> <tr> <th>Customer</th> <th>Balance as per sales ledger</th> <th>Balance as per customer confirmation</th> <th>Comment</th> </tr> </thead> <tbody> <tr> <td>AM Co</td> <td>2,25,000</td> <td>2,25,000</td> <td></td> </tr> <tr> <td>AN Co.</td> <td>3,50,000</td> <td>2,75,000</td> <td>Invoice raised on 29th March 2021</td> </tr> <tr> <td>AO Co.</td> <td>6,20,000</td> <td>4,80,000</td> <td>Payment made on 30th March 2021</td> </tr> <tr> <td>AP Co.</td> <td>5,35,000</td> <td>5,35,000</td> <td>A balance of ` 45,000 is currently being disputed by AP Co.</td> </tr> <tr> <td>AR Co.</td> <td>1,78,000</td> <td>No reply</td> <td></td> </tr> </tbody> </table> <p>Which of the following statements in relation to the results of the trade receivables circularisation is TRUE?</p>		Customer	Balance as per sales ledger	Balance as per customer confirmation	Comment	AM Co	2,25,000	2,25,000		AN Co.	3,50,000	2,75,000	Invoice raised on 29th March 2021	AO Co.	6,20,000	4,80,000	Payment made on 30th March 2021	AP Co.	5,35,000	5,35,000	A balance of ` 45,000 is currently being disputed by AP Co.	AR Co.	1,78,000	No reply	
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<p>(a) No further audit procedures need to be carried out in relation to the outstanding balances with AM Co. and AP Co. (b) The difference in relation to AN Co. represents a timing difference and should be agreed to a pre year- end invoice. (c) The difference in relation to AO Co. represents a timing difference and should be agreed to pre year- end bank statements. (d) Due to the non-reply, the balance with AR Co. cannot be verified and a different customer balance should be selected and circularized.</p>																									

MISC.6	SM-22/N21M/M23R									
<p>Pradyuman & Co. was one of the joint auditors of Lok Sahay Insurance Co. Ltd. Mr. Vicky, one of the engagement team members, of the said joint auditor, was examining the expenses included in different accounts. While verifying the expenses incurred in relation to employees, Mr. Vicky made a list of the same as follows, which he was going to discuss with his senior: -</p> <table border="1"> <thead> <tr> <th>Particulars</th> <th>Rs</th> <th>Included in which account?</th> </tr> </thead> <tbody> <tr> <td>Payment of Salaries to employees</td> <td>100 lakh</td> <td>Employees' Remuneration and Welfare Benefits Account</td> </tr> <tr> <td>Reimbursement of premium in respect</td> <td>20 lakh</td> <td>Employees' Remuneration and Welfare Benefits Account</td> </tr> </tbody> </table>		Particulars	Rs	Included in which account?	Payment of Salaries to employees	100 lakh	Employees' Remuneration and Welfare Benefits Account	Reimbursement of premium in respect	20 lakh	Employees' Remuneration and Welfare Benefits Account
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of employees' health cover		
Training and non training expenses incurred for employees	30 lakh	Employees' Remuneration and Welfare Benefits Account
Expenses incurred towards medical treatment of employees not having health cover	10 lakh	Employees' Remuneration and Welfare Benefits Account
Incentives paid to employees of the company who have solicited insurance policies	40 lakh	Commission account

Whether it can be said that Lok Sahay Insurance Co. Ltd. has properly accounted for the expenses incurred in relation to employees?

- (a) No, reimbursement of premium in respect of employees' health cover should be included in 'Others' account and incentives paid to employees should be included in Employees' Remuneration and Welfare Benefits Account.
- (b) No, non-training expenses have to be shown separately and incentives paid to employees should be included in Employees' Remuneration and Welfare Benefits Account.
- (c) No, expenses incurred towards medical treatment of employees not having health cover should be included in 'Others' account and non-training expenses have to be shown separately.
- (d) No, training and non-training expenses incurred for employees should be bifurcated and shown separately and expenses incurred towards medical treatment of employees not having health cover should be included in 'Others' account.

MISC.7

N21M/S-22M

The notes to the account statement of Nemi Ltd. shows the break-up of accounts payable for the Financial Year 2020-21 as follows:

Accounts Payable	Amount
Mr. K	1,20,000
Mr. R	40,000
Mr. B	14,56,000
Total	16,16,000

CA. Raju, the auditor of Nemi Ltd., wants to investigate the valuation of accounts payable of Mr. B amounting to ` 14,56,000. Which of the following procedures is best fitted & more reliable to be followed by CA. Raju to get more reliable evidence for the existence of such balance as on 31st March, 2021?

- (a) Inspect each and every journal entry passed in the books of Nemi Ltd.
- (b) Ask Nemi Ltd. to provide the details of payment made during the year 2021-22.
- (c) Inspect the invoices issued by Mr. B and the payments made.
- (d) Interrogate the cash manager of Nemi Ltd.

MISCELLANEOUS

MISC.1	d
MISC.2	d
MISC.3	b
MISC.4	c
MISC.5	b
MISC.6	b
MISC.7	c

CASE STUDY MCQs- ISSUED BY ICAI

Incs.01	(M20R, S22M)
<p>PQR Ltd., is one of the leading companies in the cement manufacturing industry. Right from its incorporation, it has been a subsidiary of GDP Ltd. The total shareholding of GDP Ltd. includes the following:</p> <ul style="list-style-type: none"> • The Government of Puducherry and Government of Delhi each hold 19% of the paid-up share capital, • The Government Gujarat's share is 13.5%. <p>On 27th August 2021, Mr. JJ, the auditor of PQR Ltd. had resigned from his post, citing personal reasons. He had forgotten to inform about his resignation to the concerned authorities. The casual vacancy which was created by the outgoing auditor was filled up with the appointment of FDI & Co. Chartered Accountants as statutory auditors of PQR Ltd. However, few shareholders of the company raised certain objections, which was later settled without any problems. As a part of the terms and conditions of appointment as auditors, FDI & Co. agreed to do the following:</p> <ul style="list-style-type: none"> • Charge fees at 5% of the paid-up capital plus 0.1% of net profit of the company (however Mr. JJ had agreed to charge only RS. 45,000/-), • Select and recruit personnel, conduct training programmes for and on behalf of PQR Ltd. <p>The company was having an annual turnover of RS. 510 crore, and hence it was also liable to tax audit under section 44 AB of IncomeTax Act, 1961. During the current financial year 2020-21, PQR Ltd. had changed its method of accounting compared to the previous financial year (2020- 21) and had reported a closing stock of raw material amounting to RS. 2 lakh only as on 31st March 2022. Also, the company had borrowed a sum of RS. 10 crore equally from two public sector banks and two Non-Banking Financial Companies. It had also repaid few deposits amounting to RS. 75 lakh to the deposit holders through electronic mode.</p> <p>As far as FDI & Co. Chartered accountants are concerned, Mr. F, who is one of the partners of the firm (NOTE- Mr. F does not sign the financials of PQR Ltd.) had borrowed a sum of RS. 3.89 lakh from GDP Ltd. He had also purchased goods worth RS. 1.09 lakh from the company which was in ordinary course of business, at arm's length price. Both the sum borrowed and the cost of the goods bought are not yet paid by Mr. F. Another partner of the firm, Mr. I, who is also responsible for signing the financials statements of PQR Ltd. was also engaged in the teaching profession during his free time approx 2 to 3 hours daily.</p> <p>Upon hearing about the efficient services provided by FDI & Co. Chartered accountants, they were approached by XYZ Cooperative Society to act as their statutory auditor for the upcoming financial years. The firm agreed to the offer and had the following options in mind with respect to the fees to be charged from them:</p> <p>(i) To charge fees as percentage of Net Profits, or (ii) To charge fees of RS. 101/-.</p> <p>Based on the above facts, answer the following:-</p>	
Incs.01.1	<p>"To whom should have Mr. JJ informed about his resignation? What could be the possible consequence for his non-compliance?"</p>
<p>(a) He should have informed the registrar and PQR Ltd. As a consequence of his failure, he is liable to a penalty not exceeding Rs. 5 lakhs.</p> <p>(b) He should have informed the registrar alone. As a consequence of his failure, he is liable to a penalty not less than Rs. 50,000/-.</p> <p>(c) He should have informed the registrar and FDI & Co. As a consequence of his failure, he is liable to a fine of Rs. 500 per day for each day of failure.</p> <p>(d) He should have informed the registrar & comptroller and auditor general. As a consequence of his failure, he is liable to a fine of Rs. 45,000/-."</p>	

Incs.01.2	<p>"With respect to the acts carried out by Mr. F, the partner of the audit firm, what can you infer about the appointment of FDI & Co. as auditors of PQR Ltd.?"</p>
	<p>(a) It is valid since the indebtedness is within prescribed limits. (b) It is not valid since the indebtedness exceeds prescribed limit of Rs.1 lakhs. (c) It is valid since Mr. F is not signing the financials of PQR Ltd. (d) It is valid since the indebtedness is not with PQR Ltd"</p>
Incs.01.3	<p>"Which among the below are permitted as per Chartered Accounts Act, 1949? (i) Charge fees at 5% of the paid-up capital plus 0.1% of net profit of the company. (ii) Select and recruit personnel, conduct training programmes for and on behalf of PQR Ltd (iii) Mr. I, one of the partners who is responsible to sign the financials of PQR Ltd. was into teaching profession.</p>
	<p>(a) (i) & (ii) (b) (iii) only (c) (ii) & (iii) (d) (i), (ii) & (iii)"</p>
Incs.01.4	<p>"With respect to the fees to be charged for its new assignment, which option can be opted by FDI & Co.? (i) To charge fees as percentage of Net Profits, or (ii) To charge fees of Rs. 101/-.</p>
	<p>(a) (i) Only. (b) (ii) Only. (c) Either (i) or (ii). (d) Neither (i) nor (ii)"</p>
Incs.01.5	<p>"Among the below transactions which were undertaken by PQR Ltd., which needs to be reported by the auditors under fiscal laws? (i) Rs.10 crores loan taken, which is exceeding the limit specified u/s 269 SS of Income Tax Act. (ii) Changed its method of accounting from the previous financial year. (iii) Repayment of deposits of Rs. 75 lakhs, which is exceeding limit specified u/s 269 T of Income Tax Act. (iv) Reporting of Closing stock of raw material worth Rs. 2 lakhs only.</p>
	<p>(a) (i), (iii) & (iv). (b) (ii) & (iv). (c) (i) & (iii). (d) (i), (ii), (iii) & (iv)"</p>
Incs.02	(M20R, S22M)
	<p>"CA & Co. Chartered Accountants have been appointed as the auditors of ZXC company. The company has obtained a license from the Central Government for itself to promote the sport of hockey in the rural areas of India. The company's average annual profit was estimated to be around Rs. 50 lakhs. This profit would not be distributed as dividend to the shareholders, however, it would be applied towards its objective of promoting sports in the country. During the course of audit for the financial year 2020-21, the following observations with respect to the company were made by the auditors:</p> <ul style="list-style-type: none"> • The company was not maintaining proper records with respect to the fixed assets maintained by it. The value of fixed assets of the company amounts to Rs. 1.50 crores approximately. • Physical verification for the same was not carried out at regular intervals. The last physical verification was conducted on 31st July 2020. <p>As a result of the above observations, the auditors decided to report the same in the Companies (Auditors Report) Order 2016. However, the management of the company was against the decision of the auditors and insisted that the observations need not be reported. After several discussions between the auditors and the management, CA & Co. decided not to report the issues.</p>

CA & Co. Chartered Accountants, were also acting as auditors for another company, LS Ltd. and KD Bank Ltd. During the course of audit of LS Ltd, there was a difference of opinion between the management and the auditors as to which among the following are the areas which the auditor should take into account to determine "Key Audit Matter" as per SA 701:

- (i) The effect on audit of significant transactions that took place in the financial year.
- (ii) Areas of high risk as assessed and reported by management's expert.
- (iii) Significant auditor judgement relating to areas in the financials that involved significant management judgement.

During the audit of KD Bank Ltd., the auditors and the management had a certain difference of opinion as to the amount and the items which needs to be disclosed under the head of contingent liabilities. However, apart from that, the auditors had observed the following:

- 59 agricultural loan accounts (guaranteed by Government of Delhi) amounting to Rs. 29 lakhs were overdue for more than two years.
- 73 (guaranteed by Government of India) agricultural loan accounts amounting to Rs. 25 lakhs were overdue for more than two years.
- 6 corporate loans accounts (guaranteed three each by Government of India and Government of Delhi) amounting to Rs. 25 lakhs for each company were overdue for more than three and a half months.

On hearing about the efficient services provided by CA & Co. Chartered Accountants, they were offered the following new assignments:

A GST assessing officer approached for conduct of special audit under section 66 of CGST Act for a company named MD Ltd. which was having an annual turnover of Rs. 1 crore. He had requested for the special audit as per the opinion that the company had not availed input tax credit within normal limits.

Offer to provide incorporation services to RS General Insurance Ltd. which was proposed to be set up with a paid-up share capital of Rs. 113 crores, of which preliminary expenses of Rs. 17 crores were included.

The audit firm after taking into consideration all the facts and figures with respect to its new assignments, decided not to undertake both of them."

Incs.02.1	"Is the decision of CA & Co. of not reporting the issues of ZXC in CARO 2020 justified? If so, under what reason?"
	<ul style="list-style-type: none"> (a) No. CARO 2020 is applicable to ZXC and hence the same has to be reported under clause (i) of CARO. (b) Yes. CARO 2020 is not applicable to ZXC and hence the same need not to be reported. (c) No. As per SA 240, the auditor has to maintain professional scepticism when it comes to issues in the area of fixed assets and hence the same has to be reported. (d) Yes. As per SA 320, the auditor after taking into account the materiality of the issue, he may either choose to report or not report about the same."
Incs.02.2	"What is the total amount of loans that should be classified as NPA by KD Bank?"
	<ul style="list-style-type: none"> (a) Rs.79 lakhs. (b) Rs.100 lakhs. (c) Rs.204 lakhs. (d) Rs.104 lakhs."
Incs.02.3	"Which among the following has to be reported by the auditor as contingent liability of KD Bank Ltd.?"
	<ul style="list-style-type: none"> (a) Guarantee given by KD Bank on behalf of constituent located in Myanmar. (b) A percentage of the total bills purchased by KD Bank. (c) Claims against the bank acknowledged as debt. (d) Unpaid salary of Rs. 5 lakhs to five staffs of KD Bank Ltd., who are currently undergoing a court trail."

Incs.02.4	<p>As per SA 701- Communicating Key audit matters in the Independent auditor's Report, which among the following areas should CA & Co. take into account to determine "Key Audit Matter"?</p> <p>(i) The effect on audit of significant transactions that took place in the financial year. (ii) Areas of high risk as assessed and reported by management's expert. (iii) Significant auditor judgement relating to areas in the financials that involved significant management judgement.</p>
	<p>(a) (i) & (ii) (b) (ii) only (c) (i) & (iii) (d) (i), (ii) & (iii)</p>
Incs.02.5	<p>"Whether CA & Co. are justified for not accepting the incorporation services for RS General Insurance Ltd.? If so, as to what is the reason?"</p> <p>(a) Yes. The incorporation services for an insurance company should be done by the auditor appointed by the comptroller and auditor general of India. (b) Yes. The insurance company should have a minimum paid up share capital of Rs. 100 crores which shall exclude the preliminary expenses. (c) No. The insurance company should have a minimum paid up share capital of Rs. 100 crores which also includes the preliminary expenses. (d) Yes. The incorporation services for an insurance company should be done by the auditor appointed by the Insurance Regulatory and Development Authority."</p>
Incs.03	(M20M)
	<p>"QRP Lifecare Private Limited, (the 'Company' or 'QRP'), is engaged in the pharmaceuticals. The Company is based in Hyderabad and has an annual turnover of INR 400 crores.</p> <p>One of the directors of the Company did not give declaration to the Company under section 164(2) of the Companies Act 2013 as at 31 March 2018. The auditors of the Company have completed their audit of the financial statements for the year ended 31 March 2018 and are awaiting this declaration. But the management is of the view that they will not be able to receive this declaration. All other directors have given the required declarations and the auditors have also verified that.</p> <p>QRP had given an advance amounting to INR 50 crores to its subsidiary, RPS Ltd (RPS), on 12 January 2014 for carrying out certain projects. The net worth of the subsidiary has eroded substantially as on 31 March 2018 and looking at the future projections there is no certainty in terms of the profitability of the subsidiary.</p> <p>QRP has a subsidiary, SPS Ltd (SPS), in UK. The company has outstanding trade receivables amounting to INR 10 crores from SPS. QRP has observed that there have been some FEMA (Foreign Exchange Management Act) non-compliances on the part of QRP but the management has an action plan which they have initiated and on the basis of which management is sure that the non-compliance would be done good and there would be no penalty on the company. In case the penalty arises, the impact would be significant for QRP. The auditors of QRP have evaluated this matter by involving a regulatory matters expert and also agree with the management's view.</p> <p>QRP was using a customized ERP package up to 31 March 2018. However, with effect from 1 April 2018, QRP moved on SAP (ERP package) considering the increase in size of the operations of QRP. The auditors of QRP are of the view that for the financial year ended 31 March 2019, being the first year of SAP implementation, no work on IT controls would be required and they are also evaluating to qualify report on IFC because on the basis of their experience on other clients in the past where the IT controls in the first year of ERP implementation were very weak.</p> <p>On the basis of the abovementioned facts, you are required to answer the following MCQs:</p>

Incs.03.1	How should the auditors of QRP deal with the matter related to non-receipt of declaration under 164(2) of the Companies Act?
<p>(a) Auditors may perform some alternate procedures in respect of non-receipt of declaration under 164(2) of the Companies Act.</p> <p>(b) If the auditors have been able to verify that all directors except one have given the required declarations as per the Companies Act then it should be ignored by the auditors on the basis of materiality.</p> <p>(c) There is no reporting implication due to non-receipt of declaration under 164(2) of the Companies Act from just one director. Accordingly, the auditors should issue clean report in respect of this matter, however, the auditors should insist the management to provide this declaration later on.</p> <p>(d) Auditors would need to report this matter in their main report "</p>	
Incs.03.2	"How should the auditors of QRP deal with the matter related to erosion of net worth of RPS? Is there any reporting implication for the same?
<p>(a) In respect of QRP, there is no reporting implication on the part of auditors of QRP due to erosion in net worth of RPS. This matter would be relevant for the auditors of RPS.</p> <p>(b) In respect of QRP, auditors of QRP would need to give an emphasis of matter in their report considering the uncertainty involved related to profitability of RPS.</p> <p>(c) In respect of QRP, auditors of QRP would need to give qualification in respect of non-recovery of advances from RPS if the adjustment entry is not recorded in the books.</p> <p>(d) In respect of QRP, auditors of QRP would need the management to include a note in the financial statements of QRP explaining about the recoverability of advances from RPS."</p>	
Incs.03.3	Do you agree with the way auditors have handled the matter related to FEMA non-compliances? How would you deal with this matter?
<p>(a) Auditors didn't handle this matter appropriately. Auditors should have informed about this matter to the RBI (Reserve Bank of India) within a period of 30 days from date this matter came to their knowledge.</p> <p>(b) Auditors handled this matter appropriately. The management would need to include this matter in the notes to accounts to the financial statements.</p> <p>(c) Auditors handled this matter appropriately. But they would also need to include modification in their report because the impact of penalty, if levied, can be material.</p> <p>(d) Auditors could have handled this matter in a better manner by also involving a tax expert because this might result in a penalty and that may have some taxation impact for the Company."</p>	
Incs.03.4	"QRP has been preparing consolidated financial statements but they do not consolidate financial statements of SPS every year. This is because the financial year followed by SPS is January to December as against April to March followed by QRP. The auditors have also been fine with this position of the management of QRP year on year. Please suggest.
<p>(a) QRP needs to prepare consolidated financial statements by also consolidating SPS. In case this is not done, the auditors need to qualify their report on consolidated financial statements.</p> <p>(b) QRP needs to prepare consolidated financial statements by also consolidating SPS. In case this is not done, the auditors need to give emphasis of matter in their report on consolidated financial statements.</p> <p>(c) QRP's management's view is right because SPS is a foreign company and hence no consolidation may be done while preparing consolidated financial statements in India.</p> <p>(d) Auditors of QRP should have done materiality assessment in respect of non-consolidation of SPS in the consolidated financial statements. The auditors should ask the management to include a note in the consolidated financial statements and also take management representation letter for the same."</p>	

Incs.03.5	<p>Do you agree with the view of the auditors of QRP regarding not testing IT controls in the first year of SAP implementation and evaluating qualification in IFC report. What would be your suggestion here?</p>
<p>(a) The auditors have precedence on the basis of which they have formed a view and that is completely acceptable. However, the auditors would need to document this properly in their audit files.</p> <p>(b) The auditors need to perform procedures before forming any view. Any such precedence of other client cannot be taken for QRP without performing any procedure by the auditors.</p> <p>(c) The auditors have precedence on the basis of which they have formed a view and that is fine as far as they don't want to test IT controls. However, to qualify the IFC report on the basis of precedence of other clients only may not be appropriate. Management should include a note in their financial statements in respect of first year of SAP implementation.</p> <p>(d) The auditors have precedence on the basis of which they have formed a view and that is fine as far as they don't want to test IT controls. However, instead of qualification, disclaimer would be appropriate in the IFC report because there is no work for making any conclusion by the auditors. Management should also include a note in their financial statements in respect of first year of SAP implementation."</p>	
Incs.04	(M20M)
<p>"M/s QS & Associates, Chartered Accountants, a Chennai based audit firm had taken up the following assignments for the Financial Year 2019-20 (Assessment Year 2020-21):</p> <ul style="list-style-type: none"> • To conduct the management audit of M/s BR Ltd. • To conduct the operational audit of M/s SI Ltd., which is a subsidiary company of M/s BR Ltd. • Statutory audit of M/s I General Insurance Ltd. The company has a paid-up share capital of Rs. 15,000 lakhs, which includes preliminary expenses of Rs. 3400 lakhs. During the course of audit of the company, there was a difference of opinion between the auditors and the management with respect to the minimum amount of solvency margin that needs to be maintained by the company. However, the issue was later settled. • The auditor of a listed company had resigned due to his personal reason. The board of directors of the company had appointed M/s QS & associates as replacement within 30 days. The firm also accepted the assignment without communicating about the same to the previous auditor. Certain shareholders of the firm opposed the appointment and later the problem was solved. • Statutory auditor of M/s FGH (P) Limited company, having paid up capital of Rs. 112 lakhs and a negative balance of Rs. 15 lakhs in reserves. After a long discussion between the auditors and the management of the company with respect to the applicability of CARO 2020, both of them arrived at a conclusion. <p>Based on the above facts, answer the following: -</p>	
Incs.04.1	<p>What is the minimum solvency margin that has to be maintained by M/s I General Insurance Ltd?</p>
<p>(a) Rs. 50 crores (b) Rs. 7500 lakhs (c) Rs. 5.8 cores (d) Rs. 750 lakhs"</p>	
Incs.04.2	<p>"What could be the possible reason for the objections raised by the shareholders of the listed company?</p>
<p>(a) Appointment of the incoming auditor should have been approved by members within 60 days from date of such appointment.</p> <p>(b) Appointment of the incoming auditor should have been approved by SEBI within 30 days from date of such appointment.</p> <p>(c) Appointment of the incoming auditor should have been approved by members within 30 days from date of such appointment.</p> <p>(d) Appointment of the incoming auditor should have been approved by members within 3 months from date of such appointment."</p>	

Incs.04.3	<p>"Looking at the above appointment, what is the appropriate inference which you can make about the professional ethics of M/s QS & associates, Chartered Accountants?"</p>
<p>(a) They are guilty of professional misconduct as per clause 7 of part I of Second schedule for being grossly negligent in conduct of his professional duty</p> <p>(b) They are guilty of professional misconduct as per clause 8 of part I of First schedule due to noncommunication to previous auditor</p> <p>(c) They are guilty of professional misconduct as per clause 8 of part I of Second schedule due to non-communication to previous auditor</p> <p>(d) They are not guilty of any professional misconduct."</p>	
Incs.04.4	<p>"Whether CARO is applicable to M/s FGH (P) Limited? If so, why?"</p>
<p>(a) No. Since as per para 1 of CARO 2020, it is not applicable to any private limited company.</p> <p>(b) Yes. Since the paid-up share capital of the company exceeds Rs. 1 crore, CARO is applicable.</p> <p>(c) Yes. Since the total of paid-up share capital and reserves of the company exceeds Rs. 1 crore in absolute terms.</p> <p>(d) No. Since the total of paid-up share capital and reserves of the company does not exceeds Rs. 1 crore."</p>	
Incs.05	<p>Shivam & Co LLP is a large firm of Chartered Accountants based out of Delhi-NCR. The firm has 6 offices in India – Delhi, Noida, Bangalore, Kolkata, Chennai and Chandigarh. The firm has 35 partners across various offices. The staff size of firm is 250 approximately.</p> <p>The firm is offering various services to its clients and has accordingly set up separate departments for those services which are headed by the Partners. The firm has clients as both listed and unlisted companies to whom services include statutory audit, internal audit, risk advisory, due diligence, tax support etc. The firm also has a Managing Partner who sits in Chandigarh office. All in all one can say it's an all solutions firm as far as services of a CA are concerned.</p> <p>The firm focuses significantly on its quality and accordingly has set up various controls in place. The firm ensures that the engagements of each partners are reviewed in terms of quality of work by other partner of the firm independently every year. For this purpose, firm has set up a process and one or two engagement file of a partner is selected. Quality assessment also carries weight in terms of assessment of profit sharing of the partners.</p> <p>The firm has been subject to peer review which was last conducted 3 years back.</p> <p>During the financial year ended 31st March 2021, the firm got an intimation for the peer review on 1st July 2021, with which it was before time considering that the Review was done only 3 years back and was not due. The firm discussed this matter with the relevant authorities, but the authorities did not change their stand. The process of peer review got started on 1st August 2021 and completed on 15th September 2021 which included the on-site review from 1st August 2021 to 20th August 2021.</p> <p>Since the firm was not fine with its selection and also faced some problems during the peer review process, it also consulted another firm of his friend, Shubham, Shubham & Associates. One of the engagements of Shubham & Associates was picked up for quality review by the Quality Review Board and this firm also faced various challenges during that process in terms of the selection criteria and also the observations of the reviewer.</p> <p>Considering the abovementioned facts, you are required to advise on the following matters:</p>
Incs.05.1	<p>Shivam & Co. LLP submitted a list of its assurance and due diligence services in respect of selection of the engagement for the peer review.</p>
<p>(a) Peer reviewer may select any sample out of assurance and due diligence engagement.</p> <p>(b) Peer reviewer may select any sample out of assurance engagement.</p> <p>(c) Peer reviewer may select any sample out of due diligence engagement.</p> <p>(d) Peer reviewer may select an engagement on a piecemeal basis covering any service - assurance or due diligence.</p>	

Incs.05.2	The concern of Shivam & Co LLP regarding its selection of peer review arose because it assessed itself as Level III entity which was different from assessment by the Peer Review Board.
<p>(a) The firm should be Level I based on criteria of Level 1, 2 and 3 given by ICAI regarding applicability of Accounting Standards.</p> <p>(b) The firm should be Level II based on criteria of Level 1, 2 and 3 given by ICAI regarding applicability of Accounting Standards.</p> <p>(c) The firm should be Level I based on its engagements/services.</p> <p>(d) The firm should be Level II based on criteria of Level 1, 2 and 3 given by ICAI regarding applicability of Accounting Standards and its engagements/services.</p>	
Incs.05.3	Shivam & Co LLP also objected to the time taken by the Peer reviewer on site, however, as per Peer Reviewer, the entire review process got completed within 90 days from the date of notifying the firm about its selection for review.
<p>(a) The time for onsite review should not have extended beyond 7 working days.</p> <p>(b) The time for onsite review should not have extended beyond 10 working days.</p> <p>(c) The time for complete review should be completed within 120 days.</p> <p>(d) The time for complete review should be completed within 90 days.</p>	
Incs.05.4	In case of Shubham & Associates, to improve upon the quality and strengthen the base, the Board took the current member of the Regional Council of the ICAI as a technical reviewer.
<p>(a) The Reviewer should not currently be a member of the Regional Council.</p> <p>(b) If the reviewer is a member of the Regional Council then the time allotted for review should be 60 days.</p> <p>(c) If the reviewer is a member of the Regional Council then the time allotted for review would be 30 days.</p> <p>(d) If the reviewer is a member of the Regional Council then he can not accompany any staff with him for the purpose of the review.</p>	
Incs.05.5	In case of Shubham & Associates, the reviewer raised on observation that one of the audit team member (when the team on the audit engagement was large) signed the independence confirmation dated 1 August 2016 when the audit report was signed on 1 August 2016. This was objected by Shubham & Associates because the audit team completed the documentation as required by the auditing standard.
<p>(a) Observation of reviewer was correct.</p> <p>(b) Observation of reviewer was not correct.</p> <p>(c) Observation of reviewer was correct but when only one audit member has not complied then it should have been dropped.</p> <p>(d) Observation of reviewer was not correct and also the fact that out of a large team, it involved only one audit member.</p>	

Incs.06	(N20R)
<p>"YS & Associates, a firm of Chartered Accountants, having CA. Y and CA. S as partners, is based at Mumbai. YS & Associates get their website developed as www.ysassociates.com from KPY Ltd. The colour of their website was very bright and attractive to run on a "push" technology. Names of the partners of the firm and the major clients were also displayed on the website without any disclosure obligation from any regulator.</p> <p>CA. Y accepted his appointment as tax auditor of a firm under Section 44AB, of the Income-tax Act, and commenced the tax audit within two days of appointment since the client was in a hurry to file Return of Income before the due date. After commencing the audit, CA. Y realised his mistake of accepting this tax audit without sending any communication to the previous tax auditor. In order to rectify his mistake, before signing the tax audit report, he sent a registered post to the previous auditor and obtained the postal acknowledgement.</p> <p>CA. S provides management consultancy and other services to his clients. During 2019, looking to the growing needs of his clients to invest in the stock markets, he also advised them on Portfolio</p>	

Management Services whereby he managed portfolios of some of his clients. Looking at his expertise in financial management, Mr. Tarak, a student of Chartered Accountancy course, is very much impressed with his knowledge. He approached CA. S to take guidance on some topics of financial management subject related to his course. CA. S, on request, decided to spare some time and started providing classes to Mr. Tarak along with some other aspirants for 3 days in a week and for 1 hour in a day. However, he has not taken any specific permission for such private tutorship from the Council.

YS & Associates is appointed to conduct statutory audit of XYZ Ltd. XYZ Ltd is required to appoint internal auditor as per statutory provisions given in the Companies Act, 2013 and appointed CA. IA as its internal auditor. YS & Associates asked Mr. IA to provide direct assistance to him regarding evaluating significant accounting estimates by the management and assessing the risk of material misstatements. He also seeks his direct assistance in assembling the information necessary to resolve exceptions in confirmation responses with respect to external confirmation requests and evaluation of the results of external confirmation procedures.

On the basis of the abovementioned facts, you are required to answer the following MCQs

Incs.06.1	<p>YS & Associates sought direct assistance from CA. IA, internal auditor as stated in the above scenario. Advise as to whether he is permitted to do so in accordance with relevant Standards on Auditing.</p>
<p>(a). YS & Associates cannot ask CA. IA for direct assistance regarding evaluating significant accounting estimates and assessing the risk of material misstatements. However, CA. IA may assist YS & Associates in assembling information necessary to resolve exceptions in confirmation responses as per SA 610.</p> <p>(b). CA. IA cannot assist YS & Associates in assembling information necessary to resolve exceptions in confirmation responses. However, YS & Associates can ask Mr. IA for direct assistance regarding evaluating significant accounting estimates and assessing the risk of material misstatements as per SA 610.</p> <p>(c). YS & Associates cannot ask CA. IA for direct assistance regarding evaluating significant accounting estimates and assessing the risk of material misstatements and in assembling the information necessary to resolve exceptions in confirmation responses as per SA 610.</p> <p>(d). YS & Associates can ask CA. IA for direct assistance regarding evaluating significant accounting estimates and assessing the risk of material misstatements and in assembling the information necessary to resolve exceptions in confirmation responses as per SA 610.</p>	
Incs.06.2	<p>"Whether CA S is guilty of professional misconduct in providing private tutorship to Mr. Tarak along with some other aspirants for 3 days in a week and for 1 hour in a day in the absence of specific approval.</p>
<p>(a). CA. S is not guilty of professional misconduct as he is teaching within prescribed hours i.e. not exceeding 25 hours a month as per Regulation 192A</p> <p>(b). CA. S is not guilty of professional misconduct as he is teaching within prescribed hours i.e. not exceeding 25 hours a month as per Regulation 190A</p> <p>(c). CA. S is guilty of professional misconduct as he has not obtained specific permission for the same.</p> <p>(d). CA. S is not guilty of professional misconduct as he is teaching within prescribed hours i.e. not exceeding 25 hours a week as per Regulation 190A"</p>	
Incs.06.3	<p>"Before signing the tax audit report, CA. Y sent a registered post to the previous auditor and obtained the postal acknowledgement. Will CA. Y be held guilty of professional misconduct under the Chartered Accountants Act, 1949?"</p>
<p>(a). As per Clause (8) of Part I of First Schedule to the Chartered Accountants Act, 1949 CA. Y will not be held guilty of professional misconduct as he communicated with the previous tax auditor before signing the audit report.</p> <p>(b). As per Clause (8) of Part I of First Schedule to the Chartered Accountants Act, 1949, CA. Y will not be held guilty of professional misconduct since the requirement for communicating with the previous auditor being a chartered accountant in practice would apply to statutory audit only.</p> <p>(c). As per Clause (8) of Part I of First Schedule to the Chartered Accountants Act, 1949, CA. Y will be held guilty of professional misconduct since he has accepted the tax audit, without first communicating with the previous auditor in writing.</p>	

	(d). As per Clause (8) of Part I of Second Schedule to the Chartered Accountants Act, 1949, CA. Y will be held guilty of professional misconduct since he has accepted the tax audit, without first communicating with the previous auditor in writing."
Incs.06.4	"Whether website designed for www.ysassociates.com is in compliance with the guidelines given in Clause (6) of Part I of First Schedule to the Chartered Accountants Act, 1949:
	<p>(a) Yes, website can have names of partners and major clients along with its fess.</p> <p>(b) Yes, as the websites can be designed on a "push" technology.</p> <p>(c) Yes, as there is no restriction on the colors used in the website.</p> <p>(d) No, as names of the partners of the firm and the major clients were displayed without any disclosure obligation from any Regulator."</p>

Incs.07	(N20R)
	<p>M/s ANS & Associates have been appointed as statutory auditors of Delco Ltd., listed company (referred to as 'Company') for the Financial Year 2020-21. Delco Ltd. deals in the manufacture of shoes.</p> <p>During the course of the audit, the auditor found that the company has acquired two subsidiaries namely Sole Ltd. dealing in the manufacture of shoe soles and Soccer Ltd. dealing in the manufacture of kid shoes. The auditors of Sole Ltd. and Soccer Ltd. are M/s XYZ & Associates.</p> <p>Delco Ltd. has prepared the consolidated financial statements under Indian Accounting Standards and consolidated the financial statements of subsidiary Sole Ltd. during the current financial year. However, the company has not consolidated the financial statements of Soccer Ltd. which was also acquired during the current financial year as the company has not yet been able to ascertain the fair values of certain material assets and liabilities of Soccer Ltd. as on the acquisition date. This acquisition is accounted for as an investment in the books of Delco Ltd. Had the company consolidated the financial statements of both the subsidiary, there would have been material impact on important elements of the financial statements.</p> <p>At the time of finalization of the Audit Report of the company for the year ended March 31st, 2021, the auditors are considering their reporting responsibility for non consolidation of the financial statements of Soccer Limited.</p> <p>The auditors also asked the management to disclose their reason for non-consolidation of financial of Soccer Ltd. in the notes to accounts.</p> <p>Also the financial statements of Delco Ltd. of the current financial year include the corresponding figures (without consolidation) of the previous financial year i.e. FY 2019-20.</p> <p>Further, the auditors are also considering the implications on their responsibilities and the management's responsibilities with respect to the financial statements and in the audit of such financial statements. Based on the above facts, answer the following:-</p>
Incs.07.1	"With respect to the non-consolidation of financial statements of Soccer Ltd. with the financial statements of Delco Ltd., how should the auditor deal with the same in their audit report?
	<p>(a) The auditor should give a disclaimer of opinion.</p> <p>(b) The auditor should give an adverse opinion if the impact is material and pervasive in his audit report.</p> <p>(c) The auditor should mention this fact in the emphasis of matter paragraph pervasive in his audit report.</p> <p>(d) The auditor should mention this fact in other matter paragraph pervasive in his audit report."</p>

Incs.07.2	With respect to the corresponding figures of the financial year 2019-20 in the current year financial statements, what are the auditors reporting responsibility for the same?
<p>(a) The auditor's opinion should refer to each period for which the financial statements are presented.</p> <p>(b) The auditors need to report on the current year financials only be it comparative or corresponding figures.</p> <p>(c) The auditor's opinion shall not refer to the corresponding figures except if the previous period audit report is other than an unqualified opinion or the auditor has sufficient evidence that a material misstatement exists in the financial statement of prior period which was not addressed earlier.</p> <p>(d) The auditor has no reporting responsibility for the financial statements of any year other than the current financial year for which they have been appointed.</p>	
Incs.07.3	"What is the reporting responsibility of the auditor in case, the prior period financial statements are not audited?"
<p>(a) The auditors need to report such matter in the Key Audit Matters paragraph in his report.</p> <p>(b) The auditors need to report such matter in the other matter paragraph in his report.</p> <p>(c) The auditor will be responsible for obtaining sufficient appropriate audit evidence that opening balance so not contain any material misstatement.</p> <p>(d) Both b & c."</p>	
Incs.07.4	"Preparation of the financial statements in accordance with the applicable financial reporting framework is the responsibility of the management of Delco Ltd. Which of the following is correct in regard to the disclosure of such management responsibility?"
<p>(a) This is implied responsibility of management and is presumed in an audit of financial statements and therefore need not be specifically mentioned anywhere.</p> <p>(b) The management may undertake to accept such responsibility through an engagement letter itself.</p> <p>(c) The auditor report should describe the management responsibility in a section with heading "responsibility of management for financial statements".</p> <p>(d) The auditor's report should refer to the responsibility of auditors and not that of the management as the same is obvious."</p>	
Incs.07.5	"If the auditors of Delco Ltd. decide to give a qualified/ adverse opinion in the current financial year with respect to the non-consolidation of financials of Soccer Ltd., which of the following is true with regard to the use of EOM paragraph for some other matter: -
<p>(a) The auditor cannot add EOM paragraph in his report on any matter as a qualified/adverse opinion is given by the auditor.</p> <p>(b) EOM paragraph on a matter can be added if auditor's opinion is neither qualified/ nor adverse in respect to that particular matter and the matter is fundamental to the user's understanding of financial statements.</p> <p>(c) EOM paragraph on any matter can be added in the auditor's report even if the report is qualified/ adverse with respect to that particular matter.</p> <p>(d) EOM paragraph indicates that the auditor's opinion is modified in respect to the matter emphasized."</p>	
Incs.07.5	If the management discloses the fact of non consolidation of financial statements of Soccer Ltd. in the notes to accounts of current financial year, what will be the impact on the audit report:-
<p>(a) The disclosure in notes to accounts is the responsibility of the management preparing the financial statements.</p> <p>(b) As such it will not impact the auditor's opinion in present case.</p> <p>(c) The auditor can ignore the issue of non consolidation as management is taking the responsibility of the same by disclosing the facts in notes to accounts.</p> <p>(d) The auditor should give an unmodified opinion with disclosure of the fact in other matter paragraph.</p> <p>(e) The auditor cannot give an adverse or qualified opinion in this case as the management has disclosed the reason of such non consolidation the notes to accounts.</p>	

Incs.08	(N20M)												
<p>"MINSAN Ltd, an unlisted company in South India, is engaged in the business of spice oil extraction. Total paid up capital of the company is Rs. 9 Crore. Details of annual turnover and profit of the company for the last 3 years are given below:</p>													
<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 25%;">Year ended</th> <th style="width: 45%;">Turnover (Rs. in crore)</th> <th style="width: 30%;">Profit (loss)before tax (Rs. in crore)</th> </tr> </thead> <tbody> <tr> <td>31-03-2018</td> <td>527.21 (Audited)</td> <td>50.16</td> </tr> <tr> <td>31-03-2019</td> <td>301.37 (Audited)</td> <td>01.25</td> </tr> <tr> <td>31-03-2020</td> <td>104.13 (provisional)</td> <td>(10.25)</td> </tr> </tbody> </table>		Year ended	Turnover (Rs. in crore)	Profit (loss)before tax (Rs. in crore)	31-03-2018	527.21 (Audited)	50.16	31-03-2019	301.37 (Audited)	01.25	31-03-2020	104.13 (provisional)	(10.25)
Year ended	Turnover (Rs. in crore)	Profit (loss)before tax (Rs. in crore)											
31-03-2018	527.21 (Audited)	50.16											
31-03-2019	301.37 (Audited)	01.25											
31-03-2020	104.13 (provisional)	(10.25)											
<p>The company is using conventional method for extraction of oil from spices. This requires more human intervention and hence, cost of production is high as compared to innovative method used by other new companies. Though the company had significant growth in the past years, it has not done well over the last two financial years due to competition.</p>													
<p>A new competitor viz, Natural Extracts Ltd, had come in the market during the year 2018 and by the end of March 2019, they captured around 75% of market share by offering the product at a reduced price. They use new machinery which allows whole range of automated extraction method, thus, minimizing manual steps and reducing cost of labour.</p>													
<p>In order to reduce cost of production and thereby re-capture the market, the management of MINSAN Ltd has planned to erect a new plant with an automatic machine. The estimated cost of plant & machinery is Rs. 90 lac. The company approached SA Bank Ltd for a term loan of Rs. 80 lac which would be repaid in 5 years. On 28-12-2019, the bank had sanctioned the loan; and disbursed Rs. 40 lac till 31st March 2020.</p>													
<p>MINSAN Ltd has appointed M/s Check & Check, Chartered Accountants, as auditors of the company at its AGM held on 18-09-2019 for a period of 5 years. As agreed, the audit team commenced their audit work for the year 2019-2020 in February 2020 and completed the work by the end of May 2020. The audit team submitted following findings to the engagement partner:</p>													
<ul style="list-style-type: none"> • PX Ltd, one of the material suppliers, filed a case against the company on 12-09-2019 for a compensation of ₹ 3 crore. • Company has made an estimate for allowance of debtors @5%. • 70% of the value of inventory was only covered in physical verification during the year 2019-20 due to outbreak of Novel Corona Virus (COVID-19) and subsequent lockdown thereof. • Company got a show cause notice from State Pollution Control Board for the contravention of the provisions of Hazardous and waste Management Rule. • Three incidence of fraud noticed (Total ₹ 1.02 crore)- fraud committed by the Purchase manager ₹ 85. • Lakh, by Accounts manager Rs. 15 Lakh and by a cashier ₹ 2 lac. 													
<p>As an auditor of MINSAN Ltd for the year 2019-20, answer the following questions based on the facts given in the above paragraph:"</p>													
Incs.08.1	<p>"Though the company had significant growth in the past years, it has not done well over the last two financial years. As per SA 570, there are certain events or conditions that individually or collectively may cast significant doubt about the going concern assumptions. In order to assess whether MINSAN Ltd is a going concern or not, which of the following audit procedures should NOT be performed?</p>												
<p>(a) Analysis and discuss with the management of the company to find out whether installation of new plant and machinery would enable the company to reduce cost of production.</p> <p>(b) Inquire the company's legal counsel regarding existence of legal litigation and claim against the company, reasonableness of management assessments of their outcome and estimate of their financial implication.</p> <p>(c) Evaluating management's future plan and strategy to increase market share of product.</p>													

	(d) Analysis and discuss the company's cash flow and profit of the previous years with the projected accounts."
Incs.08.2	"Company has made an estimate for allowance of debtors @5%. Some financial statement items cannot be measured precisely but can only be estimated. The nature and reliability of information available to management to support the making of an accounting estimate varies widely, which thereby affects the degree of estimating uncertainty associated with accounting estimates. Please advise which among the following may have higher estimate uncertainty and higher risk as per SA 540?"
	<p>(a) Judgments about the outcome of pending litigation with PX Ltd against the company.</p> <p>(b) Estimates made for inventory obsolescence are frequently made and updated.</p> <p>(c) A model used to measure accounting estimates is well known and the assumptions to the model are observable in marketplace.</p> <p>(d) Accounting estimate made for allowance for doubtful debts where the result of the auditors review of similar accounting estimates made in the prior period financial statements do not indicate any substantial difference between the original accounting estimate and the actual outcome."</p>
Incs.08.3	"The company in the notes accompanying its financial statements disclosed the existence of suit filed against the company with full details. Based on the audit evidence obtained, it is necessary to draw user's attention to the matter presented in the financial statement by way of clear additional communication as there is an uncertainty relating to the future outcome of the litigation. In this situation, which of the following reporting option would be correct if auditor is satisfied with the conclusions reached by the management and this matter is fundamental to the reader of financial statements?"
	<p>(a) Include an Emphasis of Matter paragraph in Auditors report having a clear reference to the matter being emphasized and issue a qualified opinion.</p> <p>(b) Include in the Basis for Adverse opinion paragraph and issue an adverse opinion having a clear reference to the matter referred in the notes on accounts.</p> <p>(c) Include in the Basis for Disclaimer of opinion paragraph having a clear reference to the matter and issue a disclaimer opinion.</p> <p>(d) Include an Emphasis of Matter Paragraph in Auditors report having a clear reference to the matter being emphasized and to where relevant disclosures that fully describe the matter can be found in the financial statement."</p>
Incs.08.4	"Company got a show cause notice from State Pollution Control Board. As per SA 250, the auditor shall perform the audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements. As the audit team of the company became aware of information concerning an instance of non-compliance with law, what would NOT be the audit procedure to be performed?"
	<p>(a) Understand the nature of the act and circumstances in which it has occurred and obtain further information to evaluate the possible effect on the financial statement.</p> <p>(b) Discuss the matter with management and if they do not provide sufficient information; and if the effect of non-compliance seems to be material, legal advice may be obtained.</p> <p>(c) Monitoring legal requirement and compliance with code of conduct and ensuring that operating procedures are designed to assist in the prevention of non-compliance with law and regulation and report accordingly.</p> <p>(d) Evaluate the implication of non-compliance in relation to other aspects of audit including risk assessment and reliability of written representation and take appropriate action."</p>
Incs.08.5	"The company had availed some amount of loan for new plant and machinery during the year under audit. Out of the total loan sanctioned an amount of ₹ 25 lac was earmarked for the purchase of the machinery-Oil Extractor; but, the company has acquired an improved model of machinery, viz, Oil extractor with Dryer in its stead. State which of the reporting option would be correct."
	<p>(a) State the fact in CARO report that out of term loan taken for machinery-Oil Extractor, ₹ 25 Lakh was not utilized for acquiring the machinery for which it was sanctioned.</p> <p>(b) Ask the management to change terms and condition of term loan as the company has acquired a different machinery. Report under CARO, if the management does not agree with the demand.</p>

- (c) State the fact in CARO report that the term loan taken has been applied for the purpose for which it was sanctioned.
- (d) State the fact in CARO report that the term loan taken has not been applied for the purpose for which it was sanctioned. Also qualify the report as there are misstatements that are material but not pervasive."

Incs.09

(N20M)

"Papa Limited is a listed nationalised bank whose face value per share is ₹ 100 each having its operation across India. Papa Limited appointed Mr. Das, Mr. Pas and Mr. Tas as its central joint auditors for the year 2020-21. After making sure that all of them are qualified to be appointed as statutory auditor of the bank, Papa Limited issued appointment letter as well as engagement letter to all of them. The engagement letter contains the details on objective and scope of audit, responsibilities of auditor, management and identification of framework applicable. It also contains the reference to expected form and content of report from all three joint auditors. During the year Papa Limited has acquired another bank called Baby Limited.

While finalising the books of accounts, some adjustments were made to give the effect of merger. These adjustments were related to determination of goodwill of ₹ 2 crores, determination of amount of minority interest of ₹ 50 Lakh and some intra-group transaction adjustment of ₹ 15 lac were also made. Another adjustment which was made was harmonization of accounting policies of both Papa Limited and Baby Limited which was of ₹ 30 lac.

While planning the audit, all joint auditors mutually decided that responsibility of verification of cash book will be entrusted with Mr. Pas. But Mr. Pas failed to detect the fraud committed by the cashier which he could have detected if he had properly checked the cash book. This fraud was revealed in the special audit which was conducted on the directions of RBI. Responsibility for verifying compliance with SLR requirement was entrusted with Mr. Das. While performing audit on compliance with SLR requirements Mr. Das used 12 odd dates in different months of fiscal year. Mr. Das with his professional judgement used the below mentioned days:

Month	Day of month	Day
April	1nd	Thursday
May	8th	Saturday
June	4th	Friday
July	30st	Friday
August	30st	Monday
September	7st	Tuesday
October	29th	Friday
November	7st	Sunday
December	7st	Tuesday
January	9th	Sunday
February	7th	Monday
March	6th	Sunday

Mr. Tas was entrusted with responsibility for calculation of Demand and time liability. On 31st March total liability stood at ₹ 200 Crores. It includes Margin held for funded facilities of ₹ 3 Crore, credit balance for one branch of ₹ 4 crores, adverse balance of nostro Mirror account of ₹ 2 Crores and unadjusted deposit for agency business of ₹ 6 Crore. Papa Limited has total 12 directors including 3 women directors. Out of them, Mr. Right was non-executive chairman as well as promoter of bank. Papa Limited has a total of 5 independent directors in their board.

Wife of CA Das, was also a Chartered Accountant and was actively involved in purchase and sale of shares. She purchased 100 shares of Papa Limited of ₹ 100 each for ₹ 15,00,000. All the required communication were made among the joint auditors and significant matters were discussed with those charged with governance. At the end, an unmodified report in accordance with SA 700 was issued which was signed by all three joint auditors."

Based on the above facts, answer the following:

Incs.09.1	"Which of the following statement is true?"
<p>(a) For giving the effect of merger, permanent consolidation adjustment of ₹250 lac and current period consolidation adjustment of ₹ 45 lac was made.</p> <p>(b) For giving the effect of merger, permanent consolidation adjustment of ₹280 lac and current period consolidation adjustment of ₹ 15 lac was made.</p> <p>(c) For giving the effect of merger permanent consolidation adjustment of ₹ 295 lac.</p> <p>(d) For giving the effect of merger, permanent consolidation adjustment of ₹ 265 lac and current period consolidation adjustment of ₹ 30 lac was made"</p>	
Incs.09.2	"While verifying the compliance of corporate governance, in accordance with Regulation 17 and 17A, was there any non-compliance in composition of board?"
<p>(a) No, as in this scenario there should be at least 1/3 i.e.4 independent directors.</p> <p>(b) Yes, as in this scenario there should be at least 1/ 2 i.e. 6 independent directors.</p> <p>(c) No, as it's up to the shareholder to decide the composition of board after complying with section 149(4) of companies act 2013.</p> <p>(d) Yes, as in this scenario there should be at least 2/3 i.e. 8 independent directors."</p>	
Incs.09.3	"List down all the months whose date has been selected inappropriately by CA Das for calculation of SLR compliance?"
<p>(a) January, February and March.</p> <p>(b) July, August and October</p> <p>(c) June, July and October.</p> <p>(d) May and November."</p>	
Incs.09.4	"While calculating SLR compliance of Papa Limited, what will be value of demand and time liability as on 31st March?"
<p>(a) Rs. 191 crores</p> <p>(b) Rs. 200 crores.</p> <p>(c) Rs. 197 crores.</p> <p>(d) Rs. 185 crores."</p>	
Incs.09.5	"Will CA Das be disqualified after his wife purchased 100 shares for Rs. 15,00,000?"
<p>(a) Mr. Das will be disqualified as an auditor of Papa Limited, as his relative owns shares of more than ₹ 100,000 market value.</p> <p>(b) Mr. Das will be not disqualified as an auditor of Papa Limited, as his relative owns shares of less than ₹ 20,00,000 market value.</p> <p>(c) Mr. Das will be not disqualified as an auditor of Papa Limited, as his relative owns shares of less than ₹ 100,000 face value.</p> <p>(d) Mr. Das will be disqualified as an auditor of Papa Limited, as his relative owns shares in Papa limited irrespective of amount of investment."</p>	
Incs.10	(S22M)
<p>MN & Associates, Chartered Accountants are newly appointed as statutory auditors and tax auditors for FY 2020-21 of Gentlemen Distillery Limited. CA. M (Partner of MN & Associates) is the head of statutory and tax audit department.</p> <p>CA. M assigned the above assignment of both statutory audit and tax audit to team comprising of following team members</p> <p>CA. Mukul (Employee); Mr. Rahul (Senior Paid Assistant); Mr. Lalit – (Senior Articled Assistant); Mr. Prashant – (Articled Assistant).</p> <p>Following issues were reported by Mr. Rahul to CA. Mukul regarding statutory audit:</p> <ul style="list-style-type: none"> • Recently the company w.e.f. 01.01.2021 has changed their terms with its major suppliers from Credit period of 60 days to cash on delivery basis for all purchases, mainly on insistence by suppliers as the company could not pay as per credit terms recently. 	

- The confirmation requests were sent to 18 debtors to confirm year end balance as on 31.03.2021. The requests were designed in the form of positive confirmation. However, the responses were received from only 2 Debtors.
- Grandfather of Mr. M was holding 50,000 shares of face value Rs. 10 per share till 01.09.2020 in the company from past 3 years.
- The trade payables consists of outstanding dues of various creditors as follows – micro enterprises (Rs.60 crore), medium enterprises (Rs. 40 crore), small enterprises (Rs. 45 crore) and others (Rs. 50 crore)
- Further, creditors outstanding for more than 6 months as on balance sheet date are Rs. 40 crore out of above.
- Mr. Lalit while doing tax audit (Form 3 CD) of another client Gina some Ltd. seeks the help of his senior Mr. Rahul on the following issues:
- During the FY 2020-21, the company has purchased a plot of land at Sitarganj having stamp duty value of Rs 31,00,000 at a consideration of Rs 30,00,000. The plot has been purchased from Mr. K who is not the related party of Ginasome Ltd.
- The Company has paid state excise duty (due date of payment –5th of Next Month) on alcohol for the months of August (Rs 5 lakh), September (Rs 3 lakh), October (Rs 4 lakh) and March (Rs 2 lakh) on 05.06.2021. The same is not disputed. The excise duty has been debited to Profit and Loss Account.

Based on the above facts, answer the following:-

Incs.10.1	Based on the above data, advise as a tax auditor how shall the “purchase of plot at Sitarganj” be dealt in tax audit report in Form 3CD?
	<p>(a) An amount of Rs. 1,00,000 shall be reported under Clause 29.</p> <p>(b) An amount of Rs. 50,000 shall be reported under Clause 29B.</p> <p>(c) An amount of Rs. 1,00,000 shall be reported under Clause 29B.</p> <p>(d) No Reporting requirements will arise in Form 3CD.</p>
Incs.10.2	As a statutory auditor of Ginasome Ltd, State the aggregate amount which shall be reported under clause (vii) of Para 3 of CARO, 2020 on account of late payment of state excise duty?
	<p>(a) Rs. 5,00,000.</p> <p>(b) Rs. 8,00,000.</p> <p>(c) Rs. 12,00,000.</p> <p>(d) Nil Amount.</p>
Incs.10.3	What amount of dues of trade payables shall be separately disclosed in the Balance Sheet as per Division 1 of Schedule III?
	<p>(a) Rs. 40 crore (Outstanding for more than 6 months).</p> <p>(b) Rs. 105 crore (Dues of Micro and Small Enterprises).</p> <p>(c) Rs. 145 crore (Dues of Micro, Small and Medium Enterprises).</p> <p>(d) No separate disclosure is required.</p>
Incs.10.4	Based on the above data, advice as a Tax Auditor how the reporting under Clause 26 shall be done in Tax Audit Report in Form 3CD regarding state excise duty?
	<p>(a) Amount of Rs. 14 lakh shall be reported under Clause 26(A)(b).</p> <p>(b) Amount of Rs. 14 lakh shall be reported under Clause 26(A)(a).</p> <p>(c) Amount of Rs. 14 lakh shall be reported under Clause 26(B)(b).</p> <p>(d) Amount of Rs. 14 lakh shall be reported under Clause 26(B)(a).</p>

Incs.11	(S22M)
	<p>Royal Bank of India is a Public Sector Bank founded in the year 1964. The bank has 183 branches all over India as on 31.03.2021. Total Deposits of the bank on 31.03.2020 was Rs. 50,000 crore. The Motto of the Bank is "Royalty lies in Loyalty". The Statutory Auditors for FY 2020-21 are PK & Associates, Chartered Accountants. The audit manager of the firm while reviewing advances has noticed the following:</p> <ol style="list-style-type: none"> The Advance granted to Mr. X has been guaranteed by State Government. However, said advance is overdue since November 2021. As on 20.04.2021, the ad hoc limit of account of Mr. Y has not been reviewed even though 120 days of date of ad hoc sanction were over. <p>The above advances have been granted by Meerut Branch. However this branch is not subject to Concurrent Audit. The Bank has also granted Term Loan of Rs. 20 crore to Samarth Ltd (An Unlisted Company) on 01.02.2021. The sanction letter read as follows: "The Facility shall be used for Repayment of Unsecured Loans of Promoters – Rs. 10 crore and towards development & construction expenses (Other than Land Cost) of the company's new office to be situated in Faridabad, Haryana – Rs. 10 crore". The company has utilized the facility as follows as on 31st March 2021-</p> <ol style="list-style-type: none"> Land Purchased for New Office: Rs. 4 crore; Development and construction Expenses of New Office: Rs. 11 crore; Repayment of Unsecured Loans of Promoters: Rs. 3 crore; Investment in Fixed Deposit: Rs. 2 crore (Temporarily); <p>Company's Total Borrowings from all Banks as on 31st March 2021 is Rs. 60 crore.</p> <p>Royal Bank of India is the parent organization (100% Holding) of Royal General Insurance Co. Ltd. The Statutory auditors of Royal General Insurance are AK & Co., Chartered Accountants (Firm based in Mumbai). Brief Financial Information is as under as on 31st March 2021:</p> <ul style="list-style-type: none"> Value of Assets: Rs. 700 crore. Amount of Liabilities: Rs. 415 crore. Capital: Rs. 200 crore. <p>The Royal General Insurance has entered into reinsurance contract with ABC Reinsurance Co. Ltd. against the risk of fire only. ABC Reinsurance Co. Ltd. is one of the largest reinsurers in India. Mr. P (Partner in PK & Associates) also acts as Surveyors and Loss Assessors under Insurance Act, 1938. However he has not intimated or taken permission from the Council of Institute of Chartered Accountants of India.</p> <p>AK and Co., have not included a report on CARO in their statutory auditor report for FY 2020-2021 for Royal General Insurance Co. Ltd. Based on the above facts, answer the following:-</p>
Incs.11.1	<p>As Statutory Auditor of Samarth Ltd, identify the aggregate amount which shall be reported under clause (ix) of Para 3 of CARO, 2020 on account of utilisation of term loans for the purpose other than for which they were obtained dealt in tax audit report in Form 3CD?</p>
	<ol style="list-style-type: none"> Rs. 4 crore. Rs. 5 crore. Rs. 7 crore. Rs. 2 crore.
Incs.11.2	<p>As an audit manager of the firm, advice which advance(s) shall be classified as Non Performing Asset?</p>
	<ol style="list-style-type: none"> Mr. X. Mr. Y. Both Mr. X and Mr. Y. Neither Mr. X nor Mr. Y.

Incs.11.3	State whether the concept of Rotation of Auditors will be applicable on Samarth Ltd u/s 139(2)?
	<p>(a) Yes, since total borrowings from Banks exceeds Rs. 25 crore.</p> <p>(b) No, since total borrowings from Banks does not exceed Rs. 100 crore.</p> <p>(c) Yes, since total borrowings from Banks exceeds Rs. 50 crore.</p> <p>(d) No, since section 139(2) is applicable only in case of Listed Companies.</p>
Incs.11.4	Based on above data, state whether Royal General Insurance has maintained adequate solvency margin u/s 64VA of Insurance Act, 1938? If No, then state what further action will be done?
	<p>(a) Yes, solvency margin has been maintained therefore no action is required.</p> <p>(b) No, It shall deemed to be insolvent.</p> <p>(c) No, It shall submit a financial plan to the authority.</p> <p>(d) The requirement of Solvency Margin is not applicable in case of general insurance companies..</p>
Incs.11.5	Whether the acting of Mr. P as a Surveyor and Loss Assessor is in the violation of Clause 11 of Part 1 of First Schedule of Chartered Accountants Act, 1949?
	<p>(a) Yes, as specific permission from the council shall be required.</p> <p>(b) (b) No, as general permission from the council has been granted.</p> <p>(c) (c) No, as specific permission from the council can be obtained at any point of time.</p> <p>(d) Yes, as general permission is not granted for above occupation.</p>
Incs.11.6	Identify the type of reinsurance contract between Royal General Insurance and ABC Reinsurance Co. Ltd.
	<p>(a) Treaty Reinsurance.</p> <p>(b) Proportional Treaty Reinsurance.</p> <p>(c) Non Proportional Treaty Reinsurance.</p> <p>(d) Facultative Reinsurance.</p>
Incs.11.7	Is AK & Co. right in not including a report on CARO in their Statutory Auditor Report?
	<p>(a) Yes, since CARO is not be applicable to insurance companies.</p> <p>(b) No, since CARO is applicable to public companies.</p> <p>(c) No, since CARO is applicable in case of wholly owned subsidiary company.</p> <p>(d) No, since, CARO is applicable to insurance companies.</p>

Incs.12	(S22M)
	<p>M/s Bajaj & Associates have been appointed as the statutory auditors of PNGC Ltd. for the FY 2020-21. PNGC Ltd. is a listed company dealing in the manufacture of iron and steel bars and it is among the top 1000 listed entities. FY 2020-21 is the first year after the incorporation of the company. The company has duly complied with the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations 2015.</p> <p>When the audit was started, the management of PNGC Ltd. Discussed with Mr. Bajaj (the engagement partner) about the strong internal control system of the company. The management discussed about the whistle blowing policy of the company, the HR policies, company code of conduct and ethics policies. Mr. Bajaj was told that the audit team can rely on the information provided to them and the entity level controls without any second thought. The management advised the auditor not to waste time in checking the direct entity level controls and instead to concentrate on indirect entity level controls during their conduct of audit. Further PNGC Ltd. has constituted its qualified Audit Committee and a Risk Management Committee as per the relevant regulations. Since FY 2020-21 was the first year after incorporation of the company, the meetings of both the committees were held twice during the year based on the company's requirement where all the company's important matters were duly discussed.</p> <p>The Board of Directors of the company had their meeting four times in the FY 2020-21. Till the second meeting, the company had 5 directors and two more directors joined the company after the first</p>

meeting only. The statutory auditors considered its implication while certifying Corporate Governance as per SEBI Regulations. The annual remuneration of one of the non-executive directors, Mr. Sushil, exceeds 10% of the total annual remuneration payable to all nonexecutive directors. The Company however, did not obtain the approval of shareholders by special resolution. Also, the auditors found that one of the independent directors, Ms. Rupali, is already independent director in seven other entities. Out of the seven entities, equity shares of four entities are listed on stock exchange. Further, while conducting the audit, the auditor found that a Management Discussion and Analysis Report is a part of the Directors Report. With respect to the non-financial information like industry structure and development, opportunities and threats, the auditor was asked by the management to verify those particular facts and to comment on the same.

Since FY 2020-21 is the first year after the incorporation of PNGC Ltd., the company is in the process of exploring the market and venturing towards its expansion plans. The management will be approaching the banks for the purpose of raising funds for its projects. The management accordingly, requested the auditor to mention in their audit report or the compliance certificate about the entity's future viability. Further, in one of the meetings of Audit Committee conducted during the FY 2020-21, the internal control system and auditor's report of PNGC Ltd. were discussed. Mr. Bajaj was also present at the meeting and the Audit Committee called for the comments of Mr. Bajaj, if any. Certain important decisions regarding the changes in the internal control system were duly taken by majority voting.

Based on the above facts, answer the following:-

Incs.12.1	What should be Mr. Bajaj's audit plan regarding the checking of direct entity level controls and indirect entity level controls after considering the management's advise?
	<p>(a) Mr. Bajaj should check the indirect entity level controls in detail and he can skip the checking of direct entity level controls as the company has a strong internal control system.</p> <p>(b) Mr. Bajaj should check the direct entity level controls in detail and he can skip the checking of indirect entity level controls as the company has a strong internal control system.</p> <p>(c) Mr. Bajaj should evaluate and understand both direct entity level controls and indirect entity level controls and should accordingly decide the nature, timing, extent of audit procedures.</p> <p>(d) Mr. Bajaj should check the indirect entity level controls in detail as it relates the business process and account balance and contribute indirectly to the effective operation of direct ELC. Thus, he can skip the checking of direct entity level controls.</p>
Incs.12.2	Is the company justified in holding meeting of its Audit Committee and Risk management Committee twice in the FY 2020-21?
	<p>(a) Yes, the company is justified as the meetings of both the committees were held as per the company's requirement and the important matters were duly discussed and conducting a meeting involves expense and when all the matters were discussed in two meetings it is wise on the part of the company that they did not hold more meetings.</p> <p>(b) No, the company is not justified in holding two meetings of both the committees as the Audit Committee should meet at least four times in a year and Risk management committee can meet once in a year.</p> <p>(c) The company is not justified in holding two meetings of the Audit Committee as an audit committee should meet at least four times in a year; however, the company is justified in holding two meetings of Risk management committee.</p> <p>(d) The company is justified as it is at the discretion of the Board of Directors to hold the meetings of the various committees of the company as per the company's requirement to discuss the matters.</p>
Incs.12.3	With respect to the meeting of Audit Committee attended by Mr. Bajaj, what all rights can be exercised by Mr. Bajaj?
	<p>(a) Mr. Bajaj has right to be heard and to vote in the meeting of Audit Committee of PNGC Ltd. When it considers the auditor's report.</p> <p>(b) Mr. Bajaj has right to vote in the meeting of Audit Committee of PNGC Ltd. when it considers the auditor's report.</p>

	<p>(c) Mr. Bajaj, being statutory auditor does not have right to be heard and to vote in the meeting of Audit Committee of PNGC Ltd. even if it considers the auditor's report. Such rights vest with the internal auditors of the company.</p> <p>(d) Mr. Bajaj has right to be heard in the meeting of Audit Committee of PNGC Ltd. when it considers the auditor's report but shall not have right to vote.</p>
Incs.12.4	With respect to the annual remuneration payable by PNGC Ltd. to Mr. Sushil, is the company correct in not obtaining the approval of shareholders by special resolution?
	<p>(a) The company is not correct in not obtaining the approval of the shareholders through special resolution.</p> <p>(b) The company is correct in not obtaining the approval of the shareholders through special resolution as no such approval is required in this case.</p> <p>(c) The company is correct in not obtaining the approval of the shareholders through special resolution as no such approval is required irrespective of the amount of annual salary payable to Mr. Sushil as a percent of total annual salary payable to all non executive directors.</p> <p>(d) The company is correct in not obtaining the approval of the shareholders through special resolution as the salary payable to the directors is a matter of concern to be discussed among all the directors. The shareholders are concerned with the financial position of the company.</p>
Incs.12.5	What is the responsibility of M/s Bajaj & Associates so far as the Management Discussion and analysis report of PNGC Ltd. Is concerned?
	<p>(a) M/s Bajaj & Associates should verify and comment on the non financial information reflected in the Management Discussion and analysis report as it forms the part of the Boards Report.</p> <p>(b) M/s Bajaj & Associates should verify the non financial information reflected in the Management Discussion and analysis report as it forms the part of the Boards Report and can take expert opinion for analyzing and commenting on the same.</p> <p>(c) M/s Bajaj & Associates is required to review the compliance with the disclosure requirement and need not verify the facts related to the non financial information reflected in the Management Discussion and analysis report.</p> <p>(d) M/s Bajaj & Associates can verify and comment on the non financial information reflected in the Management Discussion and Analysis Report provided additional fees for such work is given by the management.</p>
Incs.12.6	What should M/s Bajaj & Associates do with respect to the management's request to the auditor regarding mentioning about company's future viability?
	<p>(a) M/s Bajaj & associates can mention about the company's future viability in its compliance certificate as auditor's report is not an assurance as to future viability of the entity.</p> <p>(b) M/s Bajaj & associates can mention about the company's future viability in its audit report as compliance certificate is not an assurance as to future viability of the entity.</p> <p>(c) M/s Bajaj & associates cannot mention about the company's future viability in its compliance certificate or auditor's report as both the documents are not an assurance as to future viability of the entity.</p> <p>(d) M/s Bajaj & associates can mention about the company's future viability in either its compliance certificate or auditor's report as both the documents act as an assurance as to future viability of the entity.</p>
Incs.13	(S22M)
	<p>Sarvodya Ltd. is a public company engaged in the business of manufacture of tyres. The company had turnover of Rs. 300 crore during the financial year 2020-21. M/s Sita Gita and Associates have been appointed as statutory auditors of the company for the financial year 2020-21. This audit firm has also been the tax auditor of the company since the FY 2018-19 and continues to be the tax auditors for the FY 2020-21. During the course of audit, M/s Sita Gita and Associates received a notice from the company regarding general meeting to be held to discuss the prospective merger and acquisition by the company. The engagement partner, CA Sita decided not to attend the same by herself and to send CA Rohan (another partner working with her in the firm, having COP and recently joined the firm) to attend the</p>

same as her authorized representative. Also, she understood that there is no obligation as such on them to attend such meeting though they have a right to receive such notice. Further, the auditor came across a fraud whereby an accounts officer of Sarvodya Ltd. has made unauthorized payments amounting to Rs. 0.80 crore using bogus cheques. The auditor understands that as per the Companies (Audit and Auditors) Rules 2014 since fraud amount does not exceed RS. 1 crore, the reporting in this regard is not to be done to the Central Government and only the company is bound to disclose such fraud in the Board's report.

Further, during the financial year 2018-19 Sarvodya Ltd. acquired five companies out of which two were foreign companies. Sarvodya Limited made consolidated financial statements including the three Indian companies while the two foreign companies were not consolidated mistakenly. The management of Sarvodya Ltd. decided to voluntarily revise its accounts of financial year 2018-19 and subsequent year and discussed the matter with the auditor. Also, when the statutory audit was going on, Sarvodya Ltd. started the process to declare interim dividend for the financial year 2020-21 out of the profits of the same year. However, the company did not transfer any profits to reserves for the financial year. This is not correct as per the auditor. Further, the management of Sarvodya Ltd. did not intend to transfer the amount of dividend so declared to a separate bank account as they have declared interim dividend and according to them, such transfer is required in case of declaration of final dividend only.

During the course of audit, the auditors found that the company has not made provision for tax even though such liability was anticipated at the time of finalizing accounts for the FY 2020-21. When the auditor discussed the same with the management, they were told that since the company has declared dividend out of the current year profits, the company has not made provision for tax liability so anticipated and the same will be duly paid at the time of return filing. During the month of August 2021 i.e. FY 2021-22, the company had sold tyres to a two wheeler manufacturer namely Super X Ltd. valuing Rs. 10 lakh at arm's length price. MDS bank has given guarantee to Sarvodya Ltd. for Super X Ltd. The Branch Manager of MDS bank is Mr. Shyam, son of CA Sita. This may attract disqualification of M/s Sita Gita and Associates as statutory auditor's for the next financial year i.e. FY 2021-22.

Based on the above facts, answer the following:

Incs.13.1	Whether the understanding of CA Sita regarding their right and duty to attend the general meeting is correct? Further, is she correct in not attending the general meeting by herself and sending CA Rohan to attend the general meeting for which the former has received a notice?
	<p>(a) Ms. Sita is correct as the auditors have a right to receive notice of every general meeting; however, they are not under any obligation to compulsorily attend such meeting. Further she is correct in sending CA Rohan to attend the meeting.</p> <p>(b) Ms. Sita is not correct as the auditors have a right to receive notice of every general meeting; also, it is their duty to attend such meetings. Further she is not correct in sending CA Rohan to attend the meeting as her authorized representative as she can attend the meeting by herself and not through authorized representative.</p> <p>(c) (c) Ms. Sita is not correct as though the auditors have a right to receive notice of every general meeting; they also have a duty to attend such meetings. Further, she is correct in sending Mr. Rohan to attend the meeting as her authorized representative.</p> <p>(d) Ms. Sita is correct as the auditors have a right to receive notice of every general meeting; however, they are not under any obligation to attend such meeting. Further she is not correct in sending Mr. Rohan to attend the meeting as her authorized representative.</p>
Incs.13.2	With respect to the fraud committed by the accounts officer, is there any other reporting requirement apart from the disclosure in the Board's report?
	<p>(a) M/s Sita Gita & Associates should report the fraud to the Board of Directors and Central Government within 2 days of the knowledge of fraud.</p> <p>(b) M/s Sita Gita & Associates should report the fraud to the Audit Committee/Board of Directors within 2 days of the knowledge of fraud.</p>

	<p>(c) M/s Sita Gita & Associates should report the fraud to the Audit Committee within 2 days of the knowledge of fraud which will in turn report such fraud to the Central Government within 45 days of their knowledge.</p> <p>(d) M/s Sita Gita & Associates should report the fraud to the Audit Committee and Central Government within 2 days of the knowledge of fraud.</p>
Incs.13.3	What should CA Sita advise the management regarding the voluntary revision of financial statements related to FY 2018-19 and subsequent year?
	<p>(a) The management of Sarvodya Ltd. can revise the financial statements after obtaining the approval of the Tribunal and the order passed by the Tribunal shall be filed with Registrar.</p> <p>(b) The management of Sarvodya Ltd. cannot revise the financial statements.</p> <p>(c) The management of Sarvodya Ltd. can revise the financial statements after obtaining the approval from the Ministry of Corporate Affairs and such approval shall be filed with Registrar.</p> <p>(d) The management of Sarvodya Ltd. cannot revise the financial statements of FY 2018-19 but can revise the financial statement pertaining to FY 2019-20.</p>
Incs.13.4	With respect to the revision of financial statements of FY 2018-19 and subsequent year, can M/s Sita Gita & Associates revise the corresponding tax audit report also for those years if the financial statements are revised?
	<p>(a) M/s Sita Gita & Associates cannot revise the tax audit reports as there is no provision of revision of Tax audit report under the Income tax Act 1961.</p> <p>(b) M/s Sita Gita & Associates cannot revise the tax audit reports as the accounts of FY 2018-19 & 2019-20 have been adopted in the Annual General Meeting by the company.</p> <p>(c) M/s Sita Gita & Associates can revise the tax audit reports if the accounts are revised by the company and they should specify the reason for such revision with a reference to the earlier reports.</p> <p>(d) M/s Sita Gita & Associates can revise the tax audit reports at their own discretion for any purpose and for as many times as required.</p>
Incs.13.5	Is management of Sarvodya Ltd. correct in not transferring any percentage of profits to the reserves before it declares the interim dividend out of current year profits of FY 2020-21?
	<p>(a) The management of Sarvodya Ltd. is correct in not transferring any percent of profits to reserves as such transfer to reserves is optional.</p> <p>(b) The management of Sarvodya Ltd. is correct in not transferring any percent of profits to reserves as such transfer to reserves is required in case of declaration of final dividend and not interim dividend.</p> <p>(c) The management of Sarvodya Ltd. is correct in not transferring any percent of profits to reserves as the company has declared the dividend out of current year profits.</p> <p>(d) The management of Sarvodya Ltd. is not correct in not transferring any percent of profits to reserves as such transfer to reserves is mandatory in all cases</p>
Incs.13.6	Is the contention of management correct in not transferring the amount of dividend declared to a separate bank account?
	<p>(a) The management of Sarvodya Ltd. is correct as such amount is required to be transferred to separate bank account in case of declaration of final dividend and not in case of interim dividend.</p> <p>(b) The management of Sarvodya Ltd. is correct as the company declaring interim dividend has an option to</p> <p>(c) transfer the amount so declared in separate bank account within 7 days from the date of such declaration.</p> <p>(d) The management of Sarvodya Ltd. is not correct as such amount is required to be transferred to separate bank account in case of declaration of final dividend as well as interim dividend within 7 days from the date of declaration of such dividend. The management of Sarvodya Ltd. is not correct as such amount is required to be transferred to separate bank account in case of declaration of final dividend as well as interim dividend within 5 days from the date of declaration of such dividend.</p>

Incs.13.7	With respect to the non-provision of income tax liability by Sarvodya Ltd., what course of action should M/s Sita Gita & Associates follow in their audit report?
<p>(a) M/s Sita Gita & Associates should qualify the audit report as such non-provision of anticipated income tax liability hampers the true and fair view of the state of affairs of the company.</p> <p>(b) (b) M/s Sita Gita & Associates should give an unqualified report as provision of tax liability is the sole discretion of the management of Sarvodya Ltd. as the tax amount will be duly paid at the time of filing of the income tax return.</p> <p>(c) (c) M/s Sita Gita & Associates should give an unqualified report as the company has not made the provision of tax for a valid reason given by the management of Sarvodya Ltd.</p> <p>(d) (d) M/s Sita Gita & Associates should qualify the audit report as such non-provision of anticipated income tax liability leads to over statement of current liabilities and provisions in the balance sheet.</p>	
Incs.14	(S22M)
<p>Bhuvan & Co. Chartered Accountants, mainly into statutory audit and tax audit, is now exploring the areas of due diligence and investigation assignments. In this regard, the following events may be noted:</p> <p>(a) One of the clients of Bhuvan & Co. is planning to acquire another company to expand its business. In this regard, due diligence is to be carried out to check if the proposed merger would create operational synergies. Also, a full-fledged financial due diligence is planned to be carried out after a price has been agreed for the business acquisition they want to include, Cash flow, Accounting Policies, Brief history of the target and background of its promoters, Accounting Information System etc. in the scope of the same.</p> <p>(b) During the course of due diligence, an articled assistant enquires to the principal whether it is required to verify the letter of comfort given by the target company to a bank.</p> <p>(c) Further, Bhuvan & Co. has also received an order in writing from the Central Government, in respect of one of its clients, to carry out an investigation under section 210 of the Companies Act 2013. With respect to this investigation, Bhuvan & Co. is contemplating on the getting the assistance of an expert with respect to certain matters.</p> <p>(d) During the course of carrying out investigation as above, Bhuvan & Co. requires certain evidence from a place outside India in order to establish the correctness of an investment in the shares of a company outside India.</p> <p>From the above facts, answer the following questions by choosing the correct option.</p>	
Incs.14.1	Whether letter of comfort given to banks by the target company needs to be reviewed as part of the financial due diligence. Choose the correct reasoning from below?
<p>(a) Yes, the objective of due diligence exercise will be to look specifically for any hidden liabilities or over-valued assets and since, letter of comfort given to banks is a hidden liability, it should be reviewed.</p> <p>(b) Yes, letter of comfort given to banks is a guarantee and will be disclosed in the notes to accounts of the financial statements and calls for verification and review.</p> <p>(c) No, due diligence involves the review of only disclosed assets and liabilities of the target company and hence, letter of comfort does not call for review.</p> <p>(d) No, letter of comfort does not involve financial implications and hence it need not be reviewed as part of financial due diligence.</p>	
Incs.14.2	Which among the following is NOT a matter included in the scope of a full-fledged financial due diligence?
<p>(a) Cash flow.</p> <p>(b) Accounting Policies.</p> <p>(c) Brief history of the target and background of its promoters.</p> <p>(d) Accounting Information System.</p>	
Incs.14.3	Which among the following is NOT an instance of where the Central Government may order an investigation into the affairs of the company under section 210?
<p>(a) On a request from creditors to investigate the affairs of the company.</p> <p>(b) On the receipt of a report of the Registrar or inspector.</p>	

- (c) On intimation by a special resolution passed by a company that the affairs of the company ought to be investigated.
 (d) In public interest.

Incs.14.4 **Can Bhuvan & Co. take the assistance of experts in pursuing the investigation? Choose the correct reasoning from the below?**

- (a) Yes, Bhuvan & Co. should consider whether assistance of other experts like engineers, lawyers, etc. is necessary in the interest of a comprehensive and full proof examination of documents and information.
 (b) Yes, SA 620 – Using the work of experts, has a specific paragraph on using an expert’s assistance for investigation.
 (c) No, the objective of SA 620 is to use the work of expert for audit of historical financial statements and not for investigation purposes.
 (d) No, since investigation is analytical in nature and requires a thorough mind, capable of observing, collecting and evaluating facts, the usage of an expert will hinder the independence of the investigator.

Incs.14.5 **What should be the procedure of Bhuvan & Co. to seek evidence from outside India for the investigation?**

- (a) Seeking evidence from outside India for investment in shares outside India is outside the scope of investigation.
 (b) An application is to be made to the competent court in India by the inspector and such court may issue a letter of request to a court or an authority in such country for seeking evidence.
 (c) The evidence can be sought by electronic mail by writing to the concerned authorities of the entity outside India.
 (d) Powers of seeking evidence outside India is available only to an investigator under section 212- Serious Fraud Investigation.

Incs.15

(S22M)

ABC Limited is a manufacturing company having three manufacturing facilities in India and ranked within top 500 listed companies on stock exchanges in India. Company marked turnover of INR 15000 crore and profit before tax of INR 2000 crore during FY 2020-21. Company has not accepted any deposits from public since incorporation of the company. Mr. A is the promoter and Chief Executive Officer of the company. Mr. B, son of Mr. A, who is non-executive director of the company and holds graduate degree from IIT Bombay and post graduate degree from IIM Ahmedabad. ABC Limited already constituted Audit Committee, Nomination and Remuneration Committee, Stakeholders Relationship Committee, Risk Management Committee etc. in order to comply with Securities and Exchange Board of India (Listing Obligation and Disclosure Requirements) Regulations also known as ‘LODR Regulation’.

During oversight of financial reporting process and its disclosure by Audit Committee, the Committee noted that Company has disclosed contingent liability of INR 200 crore on account of retrospective increase in wages of contract labours. Majority of members of Audit Committee were of view that such retrospective increase in wages is certain and company is liable to pay the same in near future and therefore should be provided for rather than disclosing as a contingent liability. Accordingly, Audit Committee requested management to revisit current treatment of retrospective increase wages of contract labours.

Further, report of Internal Auditor of one manufacturing facility was presented in Audit Committee meeting by management. Internal auditor highlighted that the current controls for vendor payment process are not adequate (i.e. weak) and this poses a risk of fraud. Audit Committee members decided to appoint expert consultant to investigate / review internal financial controls for vendor payment process.

Stakeholders Relationship Committee of ABC Limited was responsible for looking into various aspects of interest of the shareholders, debenture holders and other security holders. Stakeholders Relationship Committee authorized Mr. P who is Company Secretary to deal with any queries and

<p>concerns of the Stakeholders. Stakeholders Relationship Committee last met on June 2019 and has not met during FY 2020-21 as there were no communication to Stakeholders Relationship Committee for any Stakeholders' concerns.</p> <p>On the basis of the abovementioned facts, you are required to answer the following MCQs:</p>	
Incs.15.1	<p>Select best course of action to ensure compliance with Section 177 of Companies Act 2013 in relation to establishing vigil mechanism where directors and employees can report genuine concerns.</p> <p>(a) ABC Limited is listed company. Therefore, ABC Limited is required to establish vigil mechanism where directors and employees can report genuine concerns.</p> <p>(b) Vigil mechanism is applicable to government companies only. Therefore, ABC Limited is not required to establish vigil mechanism where directors and employees can report genuine concerns.</p> <p>(c) As per Section 177 of Companies Act 2013, it is not mandatory to establish vigil mechanism where directors and employees can report genuine concerns. Therefore, ABC Limited may or may not require establishing of vigil mechanism where directors and employees can report genuine concerns.</p> <p>(d) ABC Limited is listed company but have not accepted deposits from public from date of incorporation. Therefore, ABC Limited is not required to establish vigil mechanism where directors and employees can report genuine concerns.</p>
Incs.15.2	<p>As on April 1, 2021, Board of Director would like to appoint Mr. B as Chairperson of the ABC Limited. You are requested to provide assistance to ABC Limited to determine compliance with Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations?</p> <p>(a) Mr. B is eligible to be appointed as Chairperson of the company as he holds relevant degrees along with relevant experience.</p> <p>(b) Mr. B is eligible to be appointed as Chairperson of the company as he is non-executive director of the company.</p> <p>(c) Mr. B is not eligible to be appointed as Chairperson of the company, as he is non-executive director of the company.</p> <p>(d) Mr. B is not eligible to be appointed as Chairperson of the company, as he is relative of Chief Executive Officer of the company.</p>
Incs.15.3	<p>ABC Limited Company had not conducted any meeting of Stakeholders Relationship Committee during FY 2020-21 and there was no disclosure provided in the annual report. Company wants to know frequency of conducting meeting of Stakeholders Relationship Committee. Whether it is in compliance with as per LODR Regulations?</p> <p>(a) As per Regulation 20 of LODR Regulations, Stakeholders Relationship Committee shall meet at least once in a year. Therefore, there was non-compliance as per LODR Regulations.</p> <p>(b) As per Regulation 20 of LODR Regulations, Stakeholders Relationship Committee shall meet at least four times in a year. Therefore, there was non-compliance as per LODR Regulations.</p> <p>(c) As Stakeholders Relationship Committee has authorized Mr. P who is Company Secretary to deal with any queries and concerns of the Stakeholders. Further, there were no Stakeholders concerns during FY 2020-21. Therefore, there was no non-compliance of LODR Regulation.</p> <p>(d) It is voluntary for companies to conduct meeting of Stakeholders Relationship Committee. Therefore, there was no non-compliance as per LODR Regulations.</p>
Incs.16	(S22M)
<p>Andy & Co. a reputed Chartered Accountants firm is appointed as a statutory auditor of Manava Swaroopam Limited. The Company is into manufacturing of copper products. The company has advanced in all its endeavours by supplying million Copper units. The company has incorporated another company "Daiva Swaroopam Private Limited" by investing 45% in the share capital of the company and at the same time having 100% control over the Board of Directors as per the agreement with the majority shareholder. The company is listed in the US Stock Exchange but in the process of listing in the Indian Stock Exchanges, having a net worth of INR 245 crore. The product is promoted by Ali Baba, as its product Brand Ambassador. You are the audit manager in-charge of the audit team this</p>	

year and your 1st year trainee asks you the following questions listed down. He has also noted down some of the questions for you to answer to discuss the impact on the planning stage after understanding the entity and its environment:

- The company is required to appoint the Internal Auditor as per provisions of the Companies Act, 2013 and the company complied with the same by delegating the duties to an employee, who joined the company as 1st year Architect. The audit team is planning to use the work performed by the Internal Audit function as the reports given by him are designed in a marvellous fashion. Even the Board of Directors are astonished by the design of the Internal Audit report.
- The company is planning to use the working papers of the previous auditor by demanding the audit working papers from him citing the confidentiality clause. The auditor also plans to use the same for testing the opening balances during the year. The previous year auditor having been appointed as the auditor of subsidiary; the company plans to use his work for verifying the investment balance during the year.

On the basis of the abovementioned facts, you are required to answer the following MCQs:

Incs.16.1	The engagement partner has requested you to comment upon the usage of work of Internal auditor by the engagement team in accordance with relevant Standard on Auditing:
	<p>(a) As the work done by the internal auditor is marvellously designed and presented the same can be considered to the extent the statutory auditor can use it. As the work is highly appreciated even by the Board of Directors, the same should be definitely used by Andy & Co.</p> <p>(b) The work done by the Internal Auditor need to be assessed for the sufficiency and should be used to avoid the double work. The audit team of Andy & Co. need to reduce the unnecessary work as the same has been performed by the other auditor.</p> <p>(c) The auditor is required to assess the competence and professional care of the work performed by the Internal Auditor. Thus, the auditor Andy & Co. needs to consider the audit strategy and cannot use the work of the Internal Auditor.</p> <p>(d) The work performed by the internal auditor can be used by the External Auditor in this case if the architect is not an employee of the company but is in private practice.</p>
Incs.16.2	The Trainee asked whether the audit team is to perform any procedures over the investment in Daiva Swaroopam Private Limited:
	<p>(a) The company needs to prepare the consolidated financial statements and the same need to be audited by the auditor and the auditor needs to consider the financial information and also assess regarding the need to use of the work of the component auditor.</p> <p>(b) The auditor needs to perform audit procedures over the balances in investments and transactions with its related party.</p> <p>(c) The auditor need not perform any procedures as the investment in Daiva Swaroopam Private Limited has already been made in the previous year.</p> <p>(d) Both (a) & (b).</p>
Incs.16.3	The trainee asked about role of auditor in case the investment in Daiva Swaroopam Private Limited is increased to 60% in the next year:
	<p>(a) The auditor need not do any additional procedures compared to this year except for audit procedures over the increase in Investment value and its disclosures in the Financial Statements.</p> <p>(b) The auditor should also audit the group consolidated financial statements as the consolidation becomes applicable for the company being the investment is raised from 45% to 60%.</p> <p>(c) The auditor needs to audit the subsidiary's books of accounts to get comfort over the balances in the material subsidiary. Thus, the audit strategy will change for verifying the investment.</p> <p>(d) The auditor can either on its own, audit the subsidiary or use the work of another auditor to get comfort over the balances in the subsidiary from the next year</p>

Incs.16.4	The trainee asked you whether the IND AS is applicable to the group or not?
<p>(a) Yes, but only Manava Swaroopam Limited need to prepare its financial statements as per the Companies (Indian Accounting Standards Rules), 2015.</p> <p>(b) Yes, the Company Manava Swaroopam Limited and its subsidiaries (including associates) need to prepare its financial statements as per the Companies (Indian Accounting Standards Rules), 2015.</p> <p>(c) The Company is not required to prepare financial statements as per Companies (Indian Accounting Standards Rules), 2015 as the company's net worth is below 250 crore and is not listed in any recognised stock exchange in India.</p> <p>(d) The Company is required to prepare books of accounts as per US GAAP as it is listed in US Stock Exchange and get the books audited by the CPA but not the Indian Chartered Accountant.</p>	
Incs.17	(S22M)
<p>M/s ANS & Associates have been appointed as statutory auditors of Delco Ltd., listed company (referred to as 'Company') for the Financial Year 2020-21. Delco Ltd. deals in the manufacture of shoes.</p> <p>During the course of the audit, the auditor found that the company has acquired two subsidiaries namely Sole Ltd. dealing in the manufacture of shoe soles and Soccer Ltd. dealing in the manufacture of kid shoes. The auditors of Sole Ltd. and Soccer Ltd. are M/s XYZ & Associates.</p> <p>Delco Ltd. has prepared the consolidated financial statements under Indian Accounting Standards and consolidated the financial statements of subsidiary Sole Ltd. during the current financial year. However, the company has not consolidated the financial statements of Soccer Ltd. which was also acquired during the current financial year as the company has not yet been able to ascertain the fair values of certain material assets and liabilities of Soccer Ltd. as on the acquisition date. This acquisition is accounted for as an investment in the books of Delco Ltd. Had the company consolidated the financial statements of both the subsidiary, there would have been material impact on important elements of the financial statements.</p> <p>At the time of finalization of the Audit Report of the company for the year ended March 31st, 2021, the auditors are considering their reporting responsibility for non consolidation of the financial statements of Soccer Limited.</p> <p>The auditors also asked the management to disclose their reason for non-consolidation of financial of Soccer Ltd. in the notes to accounts.</p> <p>Also the financial statements of Delco Ltd. of the current financial year include the corresponding figures (without consolidation) of the previous financial year i.e. FY 2019-20.</p> <p>Further, the auditors are also considering the implications on their responsibilities and the management's responsibilities with respect to the financial statements and in the audit of such financial statements.</p> <p>Based on the above facts, answer the following:-</p>	
Incs.17.1	With respect to the non-consolidation of financial statements of Soccer Ltd. with the financial statements of Delco Ltd., how should the auditor deal with the same in their audit report?
<p>(a) The auditor should give a disclaimer of opinion.</p> <p>(b) The auditor should give an adverse opinion if the impact is material and pervasive in his audit report.</p> <p>(c) The auditor should mention this fact in the emphasis of matter paragraph pervasive in his audit report.</p> <p>(d) The auditor should mention this fact in other matter paragraph pervasive in his audit report.</p>	

Incs.17.2	With respect to the corresponding figures of the financial year 2019-20 in the current year financial statements, what are the auditors reporting responsibility for the same?
<p>(a) The auditor's opinion should refer to each period for which the financial statements are presented.</p> <p>(b) The auditors need to report on the current year financials only be it comparative or corresponding figures.</p> <p>(c) The auditor's opinion shall not refer to the corresponding figures except if the previous period audit report is other than an unqualified opinion or the auditor has sufficient evidence that a material misstatement exists in the financial statement of prior period which was not addressed earlier.</p> <p>(d) The auditor has no reporting responsibility for the financial statements of any year other than the current financial year for which they have been appointed.</p>	
Incs.17.3	What is the reporting responsibility of the auditor in case, the prior period financial statements are not audited?
<p>(a) The auditors need to report such matter in the Key Audit Matters paragraph in his report.</p> <p>(b) The auditors need to report such matter in the other matter paragraph in his report.</p> <p>(c) The auditor will be responsible for obtaining sufficient appropriate audit evidence that opening balance so not contain any material misstatement.</p> <p>(d) Both b & c.</p>	
Incs.17.4	Preparing the financial statements in accordance with the applicable financial reporting framework is the responsibility of the management of Delco Ltd. Which of the following is correct in regard to the disclosure of such management responsibility: -
<p>(a) This is implied responsibility of management and is presumed in an audit of financial statements and therefore need not be specifically mentioned anywhere.</p> <p>(b) The management may undertake to accept such responsibility through an engagement letter itself.</p> <p>(c) The auditor report should describe the management responsibility in a section with heading "responsibility of management for financial statements".</p> <p>(d) The auditor's report should refer to the responsibility of auditors and not that of the management as the same is obvious.</p>	
Incs.17.5	If the auditors of Delco Ltd. Decides to give a qualified/ adverse opinion in the current financial year with respect to the non consolidation of financials of Soccer Ltd., which of the following is true with regard to the use of EOM paragraph for some other matter:-
<p>(a) The auditor cannot add EOM paragraph in his report on any matter as a qualified/ adverse opinion is given by the auditor.</p> <p>(b) EOM paragraph on a matter can be added if auditors opinion is neither qualified/ nor adverse in respect to that particular matter and the matter is fundamental to the user's understanding of financial statements.</p> <p>(c) EOM paragraph on any matter can be added in the auditor's report even if the report is qualified/ adverse with respect to that particular matter.</p> <p>(d) EOM paragraph indicates that the auditor's opinion is modified in respect to the matter emphasized.</p>	
Incs.17.6	If the management discloses the fact of non consolidation of financial statements of Soccer Ltd. In the notes to accounts of current financial year, what will be the impact on the audit report:-
<p>(a) The disclosure in notes to accounts is the responsibility of the management preparing the financial statements. As such it will not impact the auditor's opinion in present case.</p> <p>(b) The auditor can ignore the issue of non consolidation as management is taking the responsibility of the same by disclosing the facts in notes to accounts.</p> <p>(c) The auditor should give an unmodified opinion with disclosure of the fact in other matter agraph.</p> <p>(d) The auditor cannot give an adverse or qualified opinion in this case as the management has disclosed the reason of such non consolidation the notes to accounts.</p>	

Incs.18	(S22M)
<p>TMRT Retail Limited, (the 'Company' or 'TMRT'), is engaged in the business of retail. The Company follows financial year ending 31 March. The Company also plans to get listed in India in the next 4-5 years.</p> <p>During the financial year ended 31 March 2018, the management had noted extra-ordinary shrinkages of inventories at one of their stores. Post examination/ analysis by the in-house inventory shrinkage team, the management came to know about fraud of Rs. 19 lakh by the employees of the Company comprising of Head Cashier, Cashier and Public Relations Officer.</p> <p>TMRT has a joint venture, DT Ltd, which is engaged in the business of trading of goods. DT Ltd appointed new tax auditors for the financial year ended 31 March 2018. DT Ltd follows calendar year i.e. year ending 31 December for statutory reporting after obtaining requisite approvals. The appointment of the new tax auditors was done after 31 March 2019.</p> <p>For the financial year ended 31 March 2019, TMRT had PQN & Associates as their GST auditors, however, the management of TMRT is not happy with the work of PQN & Associates and hence wants to bring in new GST auditor. For the reporting year ended 31 March 2020, TMRT's management plans to have BKP & Associates as their internal auditors. BKP & Associates also happen to be the statutory auditors of TMRT. However, the management has been advised by a consultant that it cannot appoint statutory auditors as their internal auditors because it would lead to the issue of independence.</p> <p>BKP & Associates have been auditing TMRT for the last 3 years and had considered management override of controls as fraud risk and revenue recognition as significant risk for TMRT. BKP & Associates are evaluating whether they should drop both management override and revenue recognition as significant risks for the financial year ending 31 March 2022 considering they did not find any problems/ observations in respect of these two items in the past years and their reports have been clean for the last 2 years.</p> <p>On the basis of the abovementioned facts, you are required to answer the following MCQs:</p>	
Incs.18.1	<p>In respect of the fraud identified by the management, what shall be the reporting implications on the part of the auditor?</p> <p>(a) Auditors would need to report the fraud in their CARO report. Further they also need to evaluate whether their report on IFC and the main report should be qualified or not.</p> <p>(b) Considering the materiality, the auditors may consider not to report this matter anywhere. This is also because of the fact that management has identified this.</p> <p>(c) Auditors would need to qualify their main report as well as their CARO report.</p> <p>(d) Auditors would need to qualify their main report as well as their CARO report. Further they would also need to report about this matter to the Audit Committee as well as the Central Government.</p>
Incs.18.2	<p>The management of DT Ltd did not carry out physical verification of inventory for the year ended 31 March 2018. What could be the reporting implications on the part of the tax auditor in such a case?</p> <p>(a) Since the tax auditors and the management both did not carry out physical verification of inventory as at 31 March 2018, tax auditors should report on the basis of statutory audit report of the same period or last audited period, as applicable.</p> <p>(b) It is a common practice to appoint tax auditors after reporting year end and in such a case, the auditors should carry out the physical verification after their appointment and roll back procedures in respect of inventory. Accordingly, no reporting matter arises in such a situation.</p> <p>(c) The tax auditors would need to evaluate the nature of the inventory. Further the management should give a note in respect of this matter in the financial statements basis which no reporting implication would arise.</p> <p>(d) Since the tax auditors and the management both did not carry out physical verification of inventory as at 31 March 2018, tax auditors would need to qualify the tax audit report. Tax auditor would also evaluate how the statutory auditor has reported this particular matter in his auditor's report.</p>

Incs.18.3	The management of TMRT needs your advise in respect of appointment of common auditor both for statutory auditors and internal auditor for the financial year ended 31 March 2020.
<p>(a) Management has been advised correctly. Statutory auditors of TMRT cannot become their internal auditors.</p> <p>(b) Management has not been advised correctly. Statutory auditors of TMRT can also become their internal auditors.</p> <p>(c) Management has not been advised properly. Statutory auditors of TMRT can also become their internal auditors as they are familiar.</p> <p>(d) Management has not been advised properly. However, in the given case, statutory auditors of TMRT would not be able to take up internal audit of TMRT because they need to mention the same at the time of giving their consent letter and eligibility certificate at the time of appointment of statutory auditor.</p>	
Incs.18.4	Please advise BKP & Associates whether it would be appropriate to drop management override of controls and revenue recognition as significant risks for the financial year ending 31 March 2021.
<p>(a) It would be appropriate to drop management override of controls and revenue recognition as significant risks for the financial year ending 31 March 2021.</p> <p>(b) (b) Management override of controls and revenue recognition should continue to be the significant risks for the financial year ending 31 March 2021 if that continues to be significant risk at inherent level.</p> <p>(c) (c) Management override of controls should continue to be the significant risk for the financial year ending 31 March 2021. Revenue recognition may not be considered as significant risk.</p> <p>(d) (d) Revenue recognition should continue to be the significant risk for the financial year ending 31 March 2021. Management override of controls may not be considered as significant risk.</p>	
Incs.19	(S22M)
<p>M/s Venus & Associates (referred to as ‘auditor’) have been appointed as one of the statutory central auditors of FDHC Bank., (referred to as ‘Bank’) for the Financial Year 2020-21. During the course of the audit, the auditor found that the bank has a balance with a Zurich based bank. The auditor understands that such balance is a matter of important consideration in the audit of the bank. The engagement partner, Mr. A, has also advised the audit staff to check in detail the following items appearing in the financial statements of the bank during the year under audit.</p> <ul style="list-style-type: none"> • Amount of interest accrued and not due on deposits amounting to RS. 95,50,000/-. • The balance of Interest rate swaps amounting to RS. 84,95,000/-. Further, the statutory auditors understand that one of the most important areas to be checked in the audit of a bank is the compliance with CRR and SLR requirements. The audit staff apprised the engagement partners about the few unaudited branches of the Bank and the course of action in this regard was discussed in detail within the engagement team. The details with respect to unaudited branches are as under: <p>Interest Income: RS. 25,97,000/-. Interest Expense: RS. 15,45,220/-. Total advances: RS. 5,00,20,000/-. Total deposits: RS. 4,22,00,000/.</p> <p>The auditors also discussed the following with the audit staff and the bank management during the course of the audit:</p> <ul style="list-style-type: none"> • Computation of Demand and Time Liabilities. • Computation of Tier I & Tier II capital of the Bank. <p>Based on the above facts, answer the following:</p>	

Incs.19.1	The balance of FDHC Bank with the Zurich based Bank should be converted into Indian Currency at the following rate:
<p>(a) The exchange rate prevailing on the Balance sheet date. (b) The average of opening and closing exchange rates during the year. (c) The exchange rate as prescribed by Reserve Bank of India. (d) The exchange rates applicable on the respective dates of transaction in the account.</p>	
Incs.19.2	What should be the treatment of Interest on deposits accrued but not due amounting to Rs. 95,50,000/- appearing in the financial statements of FDHC Bank.
<p>(a) The amount should be included in deposits amount. (b) The amount should not be included in amount of deposits. (c) The amount should be shown under the head other liabilities and provisions. (d) Both b & c.</p>	
Incs.19.3	The amount of Interest Rate Swaps amounting to Rs 84,95,000/- should appear as in the financial statements of the bank :-
<p>(a) Contingent Liabilities. (b) Other Liabilities and provisions. (c) Current Liabilities. (d) Deposits.</p>	
Incs.19.4	Which of the following is correct statement related to the requirement laid down by the RBI for Venus & Associates while verifying the compliance with the SLR requirements of the bank?
<p>(a) M/s Venus & Associates are required to verify the compliance with SLR requirements at the start and end date of the year under audit. (b) M/s Venus & Associates are required to verify the compliance with SLR requirements at 12 odd dates in different months of the financial year not being Fridays. (c) M/s Venus & Associates are required to verify the compliance with SLR requirements at 24 odd dates in different months of the financial year not being Fridays. (d) M/s Venus & Associates are required to verify the compliance with SLR requirements at 10 odd dates in different months of the financial year not being Saturdays.</p>	
Incs.19.5	<p>With respect to the unaudited branches what information is the auditor required to disclose in his audit report?</p> <p>(i) Number of unaudited branches. (ii) Quantification of advances, deposits, interest income and interest expense for such unaudited branches. (iii) Quantification of advances and deposits as such amounts exceed Rs. 5 crore and Rs. 2 crore respectively. However, quantification of interest income and expense is not required as such amounts do not exceed the limit of Rs 30 lakh and 20 lakh respectively. (iv) Quantification of advances and deposits is not required as the respective amounts are less than Rs. 10 crore. However, quantification of interest income and expense is required.</p>
<p>(a) (i) & (ii). (b) (i) & (iii). (c) (i) & (iv). (d) Only (i).</p>	
Incs.19.6	While examining the computation of Demand and Time liabilities which of the following is to be included in liabilities:
<p>(a) Part amounts of recoveries from the borrowers in respect of debts considered bad and doubtful of recovery. (b) Amounts received in Indian Currency against import bills and held in sundry deposits pending receipts of final rates.</p>	

- (c) Net credit balance in branch adjustment accounts including these relating to foreign branches.
 (d) Margins held and kept in sundry deposits for funded facilities.

Incs.20

(S22M)

RS Ltd was set up by Raj and Shanti in 1992. Initially, the name of the company was Rajeev Private Limited. The company is currently into the business of aviation. The company has its head office in Chennai. The company has been in the same business since its incorporation but over the years had to shut down its business 3 times due to operational inefficiencies and resultant losses.

In the year 2012, when the company restarted its operations after shutting that down third time, the company got funding from foreign investors. The management of the company increased its focus on the processes of the company and various checks and controls to improve the efficiency of the operations. This gradually resulted in improving the overall business culture of the company and gradually the company started earning profits.

In the year 2018, the company got converted into a public company and got its name changed to RS Ltd. After that the company also tried to get listed on the New York Stock Exchange but the market was not favourable and the company instead got listed in India.

The company kept increasing its focus on operational efficiencies which was also extended to all other processes of the company, most importantly, financial reporting which was not focused earlier by the management.

The company also appointed a large firm of Chartered Accountants, KB & Co, as its internal auditors, who have had a specialization in the same sector so that they can help the company to fill the gaps in the processes, wherever required. Some of them are:

- The Standard Operating Procedures (SOP) for the logistics process was not defined from the point of vehicle request received from the sales marketing department up to the bills verification. The management explained that part of this process was developed and the remaining part was expected within the next 3 months.
- It was noted that during a particular period, cash in hand balance was higher than the actual cash requirement at some locations. The ratio of cash expenses to closing cash balance during that period ranged from 7 to 84 times. Further, the insurance cover was also not taken for the cash in hand kept at some locations. The management explained that this occurred only during a specified period and the insurance coverage plan was in place for the next year.
- On review of the procurement process, it was observed that the system was not enabled to show pending delivery of the same material while raising a subsequent purchase order and the guidelines were not defined for review of open purchase orders and long pending orders. Management explained that this was due to lead time, locking in quantity/price, lead time to shipment, delays in delivery due to rake unavailability, failure of vendors to supply material as per timelines or quality, etc. and they will explore how system driven reporting can be done.
- It was observed that the credit limit assessment was not being performed for all the customers which could result in the possibility of credit being given to customers with weak financial credibility leading to bad debts/ financial losses to the company. Management replied that they started the process of updating of the credit limit in their ERP package which shall be completed in a month's time for major customers and for customers wherever a temporary credit limit was defined. This would cover majority of exposure.

The company also appointed other consultants to improve operations and management functions.

During the financial year ended 31st March 2020, the internal auditors of the company raised some observations which were discussed in detail with the management, primarily because the management was not agreeing to some of the points of the internal auditors.

Subsequently in the financial year ended 31st March 2021, the management decided to set up its in-house internal audit function along with the CA firm, KB & Co. The idea was to do the work in-house and over the period, KB & Co. can move out once the management is confident of the in-house internal audit function. Considering the above-mentioned facts, please provide your suggestions in respect of the following:

Considering the above-mentioned facts, please provide your suggestions in respect of the following:

Incs.20.1	Whether reporting for Standard Operating Procedures (SOP) for the logistics process as discussed in scenario is required to be reported?
	<ul style="list-style-type: none"> (a) This is more of documentation and hence not relevant for the management. (b) Auditor should highlight and report this matter in his report. (c) The matter which is already under development should not be considered by the auditor. (d) Management needs to demonstrate the development process further and get this issue closed.
Incs.20.2	Contention of the management about cash balance and the insurance coverage plan matter is in order. Comment.
	<ul style="list-style-type: none"> (a) Matter should be reported by the Auditor in his audit report. (b) The management needs to explain the amount involved and if that is low then the auditor should ignore this. (c) The cash balance should not be looked at by the internal auditor as this is more relevant from financial reporting. (d) Internal auditor should only report about non-availability of the insurance coverage to the management.
Incs.20.3	Explanation given by Management regarding pending delivery status to be shown in system and guidelines was due to lead time, locking in quantity/price, lead time to shipment, delays in delivery due to rake unavailability, failure of vendors to supply material as per timelines or quality, etc. and they will explore how system driven reporting can be done is viable.
	<ul style="list-style-type: none"> (a) This was an operational challenge and hence out of the purview of the internal auditor. (b) This related to some system constraints and hence may be ignored by the internal auditor. (c) The internal auditor needs to highlight this in his report. (d) The management should draw a proper plan to take care of this. In any case there doesn't appear to be any financial impact due to this and hence the same should be ignored.
Incs.20.4	Whether internal auditor is required to report regarding credit limit assessment?
	<ul style="list-style-type: none"> (a) Since the management has already taken remedial action, the internal audit should drop this point. (b) Since this matter related to financials, this should be covered by the statutory auditors and not the internal auditors. (c) The management said that statutory auditors have also raised this point and hence internal auditors should drop this. (d) Internal auditors should report this irrespective of the fact whether statutory auditors covered this or not.
Incs.20.5	The management's plan to phase out the CA firm by building up an in-house internal audit team has been questioned by the statutory auditors saying this is not acceptable.
	<ul style="list-style-type: none"> (a) Statutory auditors are correct. (b) Statutory auditors should observe this for a period and if that is working fine then they should have no concern regarding this. (c) The management has discretion regarding this, hence statutory auditors are not correct. (d) The management should take approval from relevant authority like MCA and then statutory auditors would have to accept this.

Incs.21	(S22M)
<p>The Chanakya Bank Ltd. was having 150 branches all over India by the year ending 31st March, 2020. Ten branches of the bank were already covered for concurrent audit and the Bank's Audit Committee decided to include the below mentioned branches for concurrent audit from the year 2020-21.</p> <p>(i) Banaras branch which deals in treasury functions like investments and inter bank borrowings but not in bill rediscounting.</p> <p>(ii) Allahabad branch which started foreign exchange business from February 2020.</p> <p>(iii) Rae Bareilly branch whose aggregate deposits were more than 35% of the aggregate deposits of the bank.</p> <p>Sista and Associates, Chartered Accountants were appointed as the stock auditors by the Bank's audit committee for five branches for year 2019-20. The Bank's management appointed and fixed the remuneration of Sista and Associates, Chartered Accountants as the statutory auditors also for the year 2019-20, for the same five branches for which they were given the assignment of stock audit.</p> <p>At the Kanpur branch of the bank there were high value cash deposits in one of the current account during April 2020. Your firm has been appointed as the concurrent auditors for the Kanpur branch for the year 2020-21. The cash collected by the branch was remitted to currency chest on the very same day but, during the concurrent audit for the month of April 2020 itself the auditor noticed that the branch was unable to show intimations sent via e-mail to currency chest for the cash remittance.</p> <p>Answer the below questions based on the above paragraph:</p>	
Incs.21.1	<p>Sista and Associates, Chartered Accountants were already appointed for stock audit by the audit committee for the five branches, so whether Sista and Associates, Chartered Accountants are authorised to accept the appointment as statutory auditors for the same branches? Select correct option from the following:</p>
<p>(a) Sista and Associates, Chartered Accountants cannot accept the appointment as it was not offered by the audit committee and Bank's management is not authorised to appoint the auditors.</p> <p>(b) Sista and Associates, Chartered Accountants can accept the appointment as they were already appointed for the stock audit of those branches by the audit committee.</p> <p>(c) Sista and Associates, Chartered Accountants can accept the appointment as they have been appointed statutory auditors for the same five branches for which they were conducting stock audit.</p> <p>(d) Sista and Associates, Chartered Accountants cannot accept the appointment as the audit firms should not undertake statutory audit assignment while they are associated with internal assignments in the Bank during the same year.</p>	
Incs.21.2	<p>Whether the Bank's Management is authorised to appoint and fix the remuneration of statutory auditors without consulting the Audit Committee of the Board of Directors or members in Annual General Meeting? Select correct option from the following:</p>
<p>(a) Bank's Management cannot appoint or fix the remuneration of the statutory auditor unless the same is passed by a resolution in the Annual General Meeting of the Bank.</p> <p>(b) Bank's Management can appoint and fix the remuneration of statutory auditors only in consultation with the Audit Committee of the Board of Directors.</p> <p>(c) Sista and Associates, Chartered Accountants were already appointed for stock audit by the audit committee, therefore only audit committee was authorised to appoint or fix their remuneration as statutory auditors.</p>	

	<p>(d) Sista and Associates, Chartered Accountants were already appointed for stock audit by the audit committee, so the Bank's Management is authorised to appoint the same firm as the statutory auditors without consulting the audit committee or members in the Annual General Meeting.</p>
Incs.21.3	<p>You have been asked by your senior to verify the high value cash deposits at the Kanpur branch. What parameters/ documents will you verify as the concurrent auditor of the branch? Select correct option from the following:</p> <p>(a) Concurrent auditor has to verify the details of cash remittance to Currency Chest only. (b) You need to verify the KYC documents of the customer/s and the reason for high value cash deposit in the account like nature of business or sale of property etc. (c) Verify the KYC documents of the account in which cash is deposited; verify the reason for high value cash deposit in the account like nature of business/ transaction etc.; verify the discrepancies found in the cash of the customer/s, if any and ensure that the records of Currency Chest remittance is maintained properly. (d) As a concurrent auditor you need to verify the reason of regular cash deposit in the account/s and the nature of discrepancies, if any, found in cash deposited by the customer/s.</p>
Incs.21.4	<p>How the discrepancy of not preserving the intimations of cash remittances to currency chest by Kanpur branch of the bank should be dealt by the concurrent auditor in his audit report? Select correct option from the following:</p> <p>(a) The auditor should report the matter as a major irregularity in his audit report to the management. (b) The auditor should verify the details from e-mail sent to currency chest and close the matter. (c) As it is a minor irregularity the auditor can ignore the same. (d) The auditor should discuss the importance of preserving the hard / soft copy of e-mail sent for cash remittance with the Branch Manager and check for its compliance in the next audit period.</p>
Incs.22	(S22M)
	<p>Karma Ltd. got incorporated in 1980s as a private limited company and started its business into two segments – printing and construction. The two business activities were completely different but those were managed very well and the company grew significantly over a period of time. In year 2001, the company got converted into a public company and in 2008, the company also got listed on Bombay Stock Exchange.</p> <p>The turnover of the company was increasing, however, the margins were not increasing as per the expectations of the management and the management analysed this aspect and realized that the margins were not so high in case of printing segment.</p> <p>The company decided to focus more on construction business and included infrastructure in its line of business. This was also because of the fact that the government policies were favourable towards the infrastructure sector. Eventually, the company decided to sell its printing segment in 2016.</p> <p>The new investor (i.e. buyer) for the printing segment carried out a due diligence of the printing business involving various aspects and the company sold this segment in January 2017.</p> <p>Since the business of the company included infrastructure and it involved transactions with government officials also, the management suspected certain suspicious transactions for which it decided to carry out a forensic audit in the financial year 2016-17. During the audit, certain transactions were identified highly risky, on which them management discussed and set up certain new processes and stringent controls so that the business can function in an efficient manner.</p> <p>For the financial year ended 31 March 2020, a due diligence was done for the company, which impacted the company significantly in terms of its reputation and business. The company lost some significant contracts during the process of investigation itself.</p> <p>At the time of due diligence review, the reviewer assessed the business feasibility also so as to assess whether the current business would be more beneficial in future or not. The management of Karma</p>

Ltd. did not understand this perspective. The management argued that the reviewer has no powers to assess the business feasibility, as the company was running a profitable business from many years.

The company had various litigations going on including those related to matter of taxation. The company had taken consultations in respect of those litigations from professionals and renowned legal/tax consultants. The reviewer for due diligence reviewed these consultation documents and also asked for the documents related to these matters. Further, he also suggested that the decision taken by the company in some matters was not correct.

At the time of investigation, the reviewer asked about the background of the promoters of the company. The management explained that there was no need for this investigation. Further, the management explained that the company has already gone through the processes of due diligence and forensic audit in the previous years and there was no doubt raised on promoters of the company. So, the background of promoters cannot be shared with the reviewer.

In the light of the above-mentioned facts, you are required to answer the following questions:

Incs.22.1	<p>The management argued that the reviewer has no powers to assess the business feasibility, as the company has been running a profitable business from many years. Which of the following statement should be correct?</p> <p>(a) The contention of the management was correct. (b) Reviewer was correct, as due diligence covers assessment of business feasibility as well. (c) Reviewer was correct as due diligence covers assessment of business feasibility as well, however, as the company was doing this business for decades it should not have been carried out by the reviewer. (d) Management was correct; however, it should have discussed the same with the investor as part of the sale contract.</p>
Incs.22.2	<p>The due diligence reviewer was given audited financial statement of the company for his financial review for the year ended March 2020. However, the reviewer asked for financial statements for the year ended 31 March 2019, which was already audited by the statutory auditors of the company and the management of the company declined this request.</p> <p>(a) The management is correct. (b) Reviewer can ask for documents even for the period for Which audit is completed. (c) Reviewer can ask for financial statements for the period for which audit is completed but he cannot give any statement on them. He can collect the same for his documentation purpose only as per the requirements of the auditing standards. (d) Reviewer has no right to review the financial statements of the period other than the period under review.</p>
Incs.22.3	<p>The reviewer for due diligence reviewed the consultation documents pertaining to various litigations going on including those related to matter of taxation and also asked for the documents related to these matters. Further, he also suggested that the decision taken by the company in some matters was not correct.</p> <p>(a) The reviewer needs to have independent assessment of legal/ tax cases and any outcome needs to be discussed with the management. (b) The company should not have provided the documents as those are confidential. (c) The reviewer can study the tax consultation document but cannot give his opinion as the company already took the opinion from professional consultant. (d) Tax and legal matters are not a part of review of due diligence exercise.</p>
Incs.22.4	<p>The management may refuse to share the details of promoters? Comment on this?</p> <p>(a) Since the company has already went through due diligence and forensic audit in the previous years, the management may refuse to provide promoters details to the reviewer. (b) As the background of promoters has no bearing on the financials of the company, the reviewer should not ask for the details of promoters and the management may refuse to provide the same. (c) Since the company went through processes of forensic audit in the past, and set up new processes and internal controls, the reviewer should not investigate into the background of promoters. (e) The contention of the management is not correct.</p>

Incs.23	(S22M)
<p>Mr. I was appointed as statutory auditor of M/s New Limited and M/s Old Limited. Both the companies were having their base in Chennai they had recently listed their shares on the stock exchange. For the financial year 2021-22, Mr. I had signed limited review reports for each quarter, till the quarter ended 31st December 2021 for both the companies. Owing to his personal commitments and increased work load, he tendered his resignation to M/s New Limited on 30th January 2022 and asked the company to appoint another auditor to issue audit report for the remaining quarter and the FY 2021-22 as a whole. But the management of the company did not accept the same. They argued that it's the legal responsibility of Mr. I to do the same. After a long discussion, the issue was settled.</p> <p>However, Mr. I continued to as act as auditor for M/s Old limited. During the 1st week of March 2022, Mrs. W (wife of Mr. I) had borrowed a sum of RS. 6 lakh from the company for her personal use. Having come to know about this, Mr. I immediately informed the management that he had been disqualified to act as auditor and told them that he won't issue audit report for last quarter. But once again, the management of the company did not accept the same. They argued that it's the legal responsibility of Mr. I to do the same. After a long discussion, the issue was settled.</p> <p>Apart from the above assignments, Mr. I was engaged in the audits as well:</p> <ul style="list-style-type: none"> • Internal audit of M/s ABC (P) Ltd. • Registration of a 'RCO Trust' which was started on 31st December 2021. He also took the tax audit assignment for the same. <p>Mr. J, (friend of Mr. I) a CA in practice invited Mr. I to set up a 'Network Firm' along with 2 more friends. All the four auditors agreed to the same and decided to start a network firm by the name M/s JI & Co. However, one of the auditors suggested that they cannot use the term '& Co.' and it needs to be changed. But Mr. J informed that there is no such regulation regarding the firm's name. After further discussion, a suitable name, in accordance with the provisions of Chartered Accountant Act and Regulation was accepted by all the four partners.</p> <p>Based on the above facts, answer the following:-</p>	
Incs.23.1	<p>Is the management (of M/s New Limited) right in asking Mr. I to issue audit report for the last quarter and the FY 2020-21 as a whole, despite his resignation? What could be the reason for the same?</p>
<p>(a) No. Only if the auditor resigns after 45 days from the end a quarter, he is obligated to issue audit report for such quarter. There is no provision regarding issue of audit report for the financial year as a whole.</p> <p>(b) Yes. If the auditor resigns within 45 days from the end a quarter, he is obligated to issue audit report for such quarter.</p> <p>(c) No. Only if the auditor resigns after 45 days from the end a quarter, he is obligated to issue audit report for such quarter. However, he is obligated to issue audit report for the financial year as a whole if he resigns during last quarter.</p> <p>(d) Yes. Mr. I is responsible to issue audit report for last quarter as well as FY 2020-21 since he was the one who had issued the same for first 3 quarters. He is also obligated to issue audit report for the financial year as a whole if he resigns during last quarter.</p>	
Incs.23.2	<p>From the aspect of SEBI LODR regulations and the recent circular on 'Resignation of Statutory Auditors from listed entities', is the management (of M/s Old Limited) right in asking Mr. I to issue audit report for the last quarter? What could be the reason for the same?</p>
<p>(a) Yes. Mr. I is responsible to issue audit report for last quarter as well as FY 2020-21 since he was the one who had issued the same for first 3 quarters.</p> <p>(b) No. Since he is disqualified u/s 141 of Companies Act, the provisions are not applicable.</p> <p>(c) Yes. The disqualification affects Mr. I from issuing audit report from next quarter only.</p>	

	(d) Yes. If the auditor resigns after 45 days from the end a quarter, he is obligated to issue audit report for such quarter.
Incs.23.3	Which among the name shall be suitable to the newly started 'Network Firm', in accordance with the provisions of Chartered Accountant Act and regulation?
	(a) JI and Co. (b) JI & Associates. (c) JI and Networks. (d) JI & Affiliates.
Incs.23.4	Within which date should the registration of RCO Trust should be done and what is the form in which tax audit report for the same should be submitted?
	(a) Registration: Before 31st March 2021; Tax audit report:Form 10 B. (b) Registration: No specific time limit; Tax audit report:Form 3 CB & 3 CD. (c) Registration: Before 31st December; Tax audit report: Form 10 B. (d) Registration: Before 31st March 2021; Tax audit report:Form 3 CA & 3CD.

Incs.24	(S22M)
	<p>M/s IM & Co. Chartered Accountants is a newly started firm. Their first assignment was to conduct statutory audit of M/s CD Crackers Ltd. (a cracker manufacturing company). Since it was their first audit, the partners immediately accepted the work, without paying attention to the relevant procedures. They started their audit work from 25th May 2021 for the financial year (say previous year) ended on 31st March 2021.</p> <p>During the course of the audit,</p> <p>(I) The auditors requested for the financials of the preceding previous year, along with the details of transactions till 25th May of the current year. The management however argued that both the details are out of the scope of audit and hence told that they can't provide the details. However, after repeated request from the auditors, they finally provided in September 2021.</p> <p>(II) It was suspected that the senior accountant could have indulged in a fraud amounting to Rs. 117 lakh. However, on further investigation by management it was found that there was a gross mistake on part of the accountant, who had wrongly debited and credited certain accounts by mistake, which amounted to Rs. 18 lakh. The company provided proper and correct evidence for the balance amount; hence the auditors were strongly convinced that no fraud had taken place. Due to the absence of an audit committee, the auditors suggested to the director (finance) to replace the existing accountant as he was poor in basic accounting skills.</p> <p>Initially, the company thought of handing over the tax audit work to the previous auditor. However, since they had a bad experience last year, in form of an argument regarding the contents to be included in the tax audit report, especially with respect to the disclosure of key ratios, it was decided that the IM & Co. shall also act as tax auditors.</p> <p>After the conclusion of the audit, Mr. I, one of the partners of the firm was confused as to whether the firm could be held guilty of professional misconduct for a plausible violation of any of the provisions. of the Chartered Accountants Act. He contacted Mr. M, his partner, to get clarified about the doubt.</p> <p>M/s Hire (P) Ltd., a recruitment agency contacted Mr. I regarding a vacancy in one of the leading manufacturing company. Eventually Mr. I resigned as the partner of IM & Co. and joined the company. The agency raised an invoice for the service rendered by them, which amounted to 0.2% of the CTC offered. Mr. I agreed to pay the amount. However, since his friend was a manager at the agency, he received full discount on the invoice.</p> <p>Angered by the act of resignation, Mr. M filed a complaint with the Institute of Chartered Accountants of India (ICAI) stating that Mr. I had violated the provisions of the Chartered Accountants Act and is</p>

guilty of professional misconduct. Having come to know that Mr. M was the one who had filed a complaint against him, Mr. I decided to take revenge. While thinking for a suitable reason to file a complaint, he recalled the fact that Mr. M was engaged as a Registration Authority for obtaining digital signatures for his clients. Quoting the same, he filed a complaint against Mr. M stating that he was guilty of misconduct for violating the provisions of the Chartered Accountant Act.

Based on the above facts, answer the following:-

Incs.24.1	What can you infer from the situation given in Point I?
	<p>(a) Management was right. Both the details asked by the auditors were out of the scope of audit.</p> <p>(b) The auditors have the right to ask only the details of preceding previous year and not the details of transactions till 15th May of current year.</p> <p>(c) Both the auditors and the management have the right to ask both the details and the right to not provide both the details.</p> <p>(d) The auditors have the right to ask both the details. The management's contention that it is out of the scope of audit is wrong.</p>
Incs.24.2	Is M/s IM & Co. guilty of professional misconduct for violating any of the provisions of Chartered Accountants Act? If so, as per which clause?
	<p>(a) Clause 1 of Part I of Second Schedule.</p> <p>(b) Clause 8 of Part I of First Schedule.</p> <p>(c) Clause 2 of Part II of Second Schedule.</p> <p>(d) No. The firm has not violated any of the provisions and hence not guilty of professional misconduct.</p>
Incs.24.3	Is Mr. I guilty of professional misconduct, if so, under what clause?
	<p>(a) Clause 1 of Part I of First Schedule.</p> <p>(b) Clause 2 of Part II of Second Schedule.</p> <p>(c) No. Mr. I is not guilty of professional misconduct.</p> <p>(d) Clause 1 of Part II of First Schedule.</p>
Incs.24.4	Is Mr. M guilty of professional misconduct, if so, under what clause?
	<p>(a) No. Mr. M is not guilty of professional misconduct.</p> <p>(b) Clause 11 of Part I of First Schedule.</p> <p>(c) Part III of Second Schedule.</p> <p>(d) Clause 1 of Part II of Second Schedule.</p>

Incs.25	(S22M)															
<p>Sankalp Edible Oil Limited is a public company which has the business of manufacturing cooking oil. The company is in this particular business since last 25 years. The Financial results of the company for the previous year FY 2020-21 is as follows:-</p>																
	<table border="1"> <thead> <tr> <th>Sr. No.</th> <th>Particulars</th> <th>Amount</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>Aggregate Outstanding Loans, debentures and Deposits</td> <td>Rs. 10 crore</td> </tr> <tr> <td>2</td> <td>Turnover of the company</td> <td>Rs. 100 crore</td> </tr> <tr> <td>3</td> <td>Paid-up capital of the company</td> <td>Rs. 50 crore</td> </tr> <tr> <td>4</td> <td>Net Profit (after tax) of the company</td> <td>Rs. 5 crore</td> </tr> </tbody> </table>	Sr. No.	Particulars	Amount	1	Aggregate Outstanding Loans, debentures and Deposits	Rs. 10 crore	2	Turnover of the company	Rs. 100 crore	3	Paid-up capital of the company	Rs. 50 crore	4	Net Profit (after tax) of the company	Rs. 5 crore
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<p>For the year 2020-21, M/s Aagam & Associates were the auditors of the Company. The auditors found out significant deficiencies in internal control and misrepresentation of amounts in the area of Trade Payables. Therefore, Auditor issued qualified Audit Report.</p>																
<p>Next year, management did not wish to re-appoint the same auditors, and hence, Board of Director recommended Ms. Aangi as the Statutory Auditor for FY 2021-22 to the members of the Company.</p>																

After appointment, Ms. Aangi went through previous year financials statements, audit report etc. and emphasised the understatement of Trade Payable balance as a significant audit risk. Auditor set the materiality at Rs. 15,00,000 for conducting audit of the year 2021-22.

Further, Ms. Aangi is in process to select the samples for testing so as to get the samples on which Vendor Balance Reconciliations can be performed, she is considering the following for the same:

- (i) Major Vendors where the confirmation balances agrees to General Ledger.
- (ii) Vendors which have high volume of business with Sankalp Edible Oil Limited.
- (iii) Vendors with balances of Rs. 15,00,000 or more outstanding at the year end.
- (iv) Vendors with balances of Rs. 15,00,000 or less outstanding at the year-end.

As at March 31st, 2022, the balance of two vendor as per company's General Ledger and as per the balance of the External Confirmation which are received from vendors are as under:-

Vendor Name	Balance as per General Ledger	Balance as per External Confirmation
Suchi Groundnut Seeds Limited	Rs. 15,00,000	Rs. 20,00,000
Nishi Sunflower Seeds Limited	Rs. 65,00,000	Rs. 80,00,000

Suchi Groundnut Seeds Ltd.:-

The difference in the balance is due to one of the order received by the Company. This order is under dispute as the Company claims that the received raw material is of sub-standard quality. The consignment received was sent back to the vendor on March 30, 2022.

Nishi Sunflower Seeds Ltd.:-

The difference in the balance is due to the reason of two invoices of Rs. 10,00,000 and Rs. 5,00,000 dated March 25, 2022 & March 27, 2022 respectively. As per the Accounts Payable Executive, both the invoices were received on April 03rd, 2022 and therefore, those were not recorded in the financial statement for the year ended March 31st, 2022.

Ms. Aangi took the samples to verify Trade payable balances, which covered 30% of population. During the Audit, she came across 2 errors amounting to Rs. 12,00,000:

- Rs. 4,00,000 was due to one invoice not being recorded due to weak inefficient control mechanism and;
- Rs. 8,00,000 error was made by Mr. Samyak, an executive who came as a temporary replacement for one week in the place of Ms. Hetavi, who is permanent accountant of the company. The mistake was clerical in nature.

Based on the above facts, answer the following:-

Incs.25.1	<p>Which items should Ms. Aangi select for testing so as to get the samples on which Vendor Balance Reconciliations can be performed?</p> <p>(i) Major Vendors where the confirmation balances agrees to General Ledger. (ii) Vendors which have high volume of business with Sankalp Edible Oil Limited. (iii) Vendors with balances of Rs 15,00,000 or more outstanding at the year end. (iv) Vendors with balances of Rs 15,00,000 or less outstanding at the year-end.</p>
	<p>(a) i & iii. (b) ii, iii, & iv. (c) i & ii. (d) i, ii & iii.</p>

Incs.25.2	How can Ms. Aangi audit the operating effectiveness of internal control around the accounting of Trade payables?
	<ul style="list-style-type: none"> (a) Recalculating ageing of Trade Payables to identify the balances which may not be agreeing with the audit evidence. (b) Select samples from the supplier balance based on scientific Random Sampling approach & verify the thirdparty evidence. (c) Input a fake purchase invoice into the client system to see if it is processed accurately. (d) Calculate Trade Payables' days to use in the analytical procedures.
Incs.25.3	What are the audit procedures that Ms. Aangi should perform to verify whether the payable balances of Nishi Sunflower Seeds Ltd. are correctly recorded in the financial statements.?
	<ul style="list-style-type: none"> (a) Send a confirmation to Nishi Sunflower Seeds Ltd. To requesting to confirm the outstanding balance as at March 31, 2022. (b) Verify the bank payments for the period of post March 31, 2022 for any evidence of payment of invoice. (c) Review the listing of purchase order to confirm whether it pertains to the current year 2021-22 or it pertains to the next financial year. (d) Inspect the Goods Receipt Note to determine the date of receipt of raw material.
Incs.25.4	What would be proper course of action to be taken by Ms. Aangi for two errors amounting to Rs. 4,00,000 and Rs. 8,00,000 in the given scenario?
	<ul style="list-style-type: none"> (a) The total amount of error is below the materiality and therefore it should not be considered or further work upon. (b) Ms. Aangi should ask Sankalp Edible Oil Ltd. to adjust Rs. 12,00,000 in the Payable balance and rectify the same. (c) Different set of samples representing the same amount should be selected to check whether same errors are getting repeated, if it is not, then the observation should be waived off. (d) The impact of errors noted in the audit of samples (test of details), should be projected and extrapolated across the whole population.

Incs.26	(S22M)
	<p>CA David was appointed as a statutory auditor of Growth Limited having its headquarter at Mumbai. Growth Limited was involved in retail & packaging business and had branches in 6 states of India; Mumbai being its headquarter. It had a policy to appoint different auditor for each branch in different state and a central auditor for Mumbai headquarter. For the FY ended 31st March 2021, all branch audit reports were received by CA David in a timely manner. There was an increase in sales for all the branches, except for the branch of Kerala where sales declined by 17% in comparison to last year. Hence CA David requested CA Chinnaswami, auditor of Kerala branch, to share audit working papers of Growth Limited's Kerala Branch.</p> <p>During the year, Growth Limited used its securities premium of Rs. 7 crore for writing off unabsorbed depreciation of Rs. 2.5 crore and issue of bonus shares for Rs. 4.5 crore. All the provisions of section 63 of the Companies Act, 2013 for issue of bonus share and applicable rules in respect of issue of Bonus shares were complied with by Growth Limited. CA David also took a written representation which was certified by the Company Secretary employed by Growth Limited in regard to compliance of applicable provisions for usage of securities premium and thus, CA David issued unmodified audit report. The company created provision for doubtful debts amounting to Rs. 8 lakh and presented that under head short term provisions under liabilities in its financial statements. CA David was confused with presentation of such provision in accordance with Ind AS 37.</p> <p>Advocate Tanay was a practicing advocate representing in the court of law. Tanay and CA David agreed that advocate Tanay will recommend CA David in case of matters relating to finance & other matters and CA David will recommend advocate Tanay in case of matters relating to tax litigations. Further they also decided to share profits with each other in relation to such assignments. With the increased quantum, CA David has to increase his office capacity. He purchased 10 office chairs, tables and other</p>

office furniture from Growth Limited. The same were purchased with huge 90% discount under clearance sale. The purchase amounted to Rs. 9 lakh which was not more than statutory audit fees of CA David. CFO of Growth Limited contented that, as a result of this purchase, there exist a business relation between Growth Limited and CA David, hence CA David will be disqualified under section 141(3) of the Companies Act, 2013.

Based on the above facts, answer the following:-

Incs.26.1	Was the opinion formed by CA David in respect of usage of securities premium correct?
	<p>(a) No, as securities premium cannot be used by company for adjusting unabsorbed depreciation.</p> <p>(b) No, as securities premium cannot be used for issuing bonus shares.</p> <p>(c) Yes, as CA David has taken written representation signed by the Company Secretary. Hence CA David will not be liable to check the compliance of applicable provision.</p> <p>(d) Yes, as per section 52 of the Companies Act, 2013, premium can be used for adjusting unabsorbed depreciation and for issuing bonus shares.</p>
Incs.26.2	In your opinion, was the presentation of provision for doubtful debts correct in accordance with Ind AS 37?
	<p>(a) Yes, as Ind AS 37 specifies that such provision should be presented under short term provision.</p> <p>(b) No, as Ind AS 37 specifies that such provision should be presented net of trade receivables.</p> <p>(c) Yes, because Ind AS 37 doesn't specify anything for presentation, hence we will have to follow practice which require that such provision should be presented under short term provision only.</p> <p>(d) Yes, as it won't make any impact so it is at the discretion of Growth Limited whether to present it under short term provision or net it off from trade receivables.</p>
Incs.26.3	What is the validity of CFO's contention for disqualification under section 141(3) and will CA David be disqualified?
	<p>(a) The contention of CFO is valid and CA David will have to vacate office as he has purchased his office furniture at 90% discount.</p> <p>(b) The contention of CFO is valid but CA David will not have to vacate office as the purchases are less than audit fees as there exist business relation.</p> <p>(c) The contention of CFO is invalid but CA David will have to vacate office as he has purchased his office furniture at 90% discount.</p> <p>(d) The contention of CFO is invalid and CA David will not have to vacate office as no business relation exists there.</p>

Incs.27

(S22M)

CA Dev was involved in practice of statutory audit from last 27 years. He is the statutory auditor of 19 public limited companies out of which 7 are listed. He is also statutory auditor of 6 one person companies. Out of 19 public companies, 7 are PSU's (Public Sector Undertakings), 4 are involved in banking business, 2 are life insurance companies and others are private sector companies. His friend, Mr. Suyog was MD of health life insurance company and wants to appoint CA Dev as statutory audit of Health life insurance company. There is quite a diversification of clients of Mr. Dev. Few are from insurance, tea business and FMGC as well. CA Dev still wants to increase the area of his practice.

Mintcoin Ltd. was involved in the business of assisting startups to raise funds from venture capitalists. It had a huge network of venture capitalists which was very helpful in serving the clients. But Mintcoin Ltd. lacked a finance expert who can present the financial statements of startups to venture capitalist. Mintcoin Ltd. contacted CA Dev who was a practicing chartered accountant. But as he holds COP (Certificate of Practise), he cannot work as full time employee of Mintcoin Ltd. So, it was agreed that rather than fixed salary, CA Dev will charge 2% of the amount raised as consultancy fee and will continue with his practice. It was also agreed that he will not be an employee of Mintcoin Ltd. and will provide direct fund raising services to startups in collaboration with Mintcoin Ltd.

CA. Dev was statutory auditor of Safety Limited. It was an insurance company having fire, and marine insurance products. In case of marine insurance, it had a risk of nearly Rs. 100- 120 crore and in case of fire insurance, 70% of its fire insurance premium was received from Star Hotels. Safety Ltd has a policy

that in case of marine insurance, it will not hold risk of more than Rs. 50 crore, hence Safety Ltd signed a contract for 5 years with Help Ltd, which was involved in the business of reinsurance, to cede risk above Rs. 50 crore for 40% of marine insurance premium. Because of change in business environment, Safety Limited entered a separate contract with Help Ltd to reinsure fire insurance of Star Hotels where Help Ltd. will bear 40% risk in returns of 40% of premium from Star Hotels. Net premium used for calculation of unexpired risk reserve of marine hull insurance is Rs. 70 crore and marine cargo insurance is Rs. 40 crore. Total net premium of fire insurance was Rs. 80 crore at the end of the year. CA Dev was confused as to how to calculate unexpired risk reserve.

CA Dev is statutory auditor of Tata Tea Ltd. as well. It has set up its manufacturing plant in the backward areas of West Bengal. It has been set up under production linked investment scheme of government. The turnover of immediately preceding financial year of the company is Rs. 60 crore. Along with manufacturing of tea, Tata Tea Ltd. also produces electricity from its own solar plant, whose electricity is only used by Tata Tea Ltd. in its manufacturing activities.

CA. Dev is statutory auditor of FMCG giant Premium Ltd as well. Premium Ltd. is a listed company and 47th largest company of India in terms of market capitalization. The promoter of the company is Mr. Hari but he doesn't hold any management position in this company. His brother, Mr. Taari, is a non-executive chairman of Premium Ltd. There sits a total of 16 directors including Mr. Suyog on board of Premium Ltd. The BOD (Board of Directors) are considering to form an audit committee consisting of 9 directors. Mr. Taari seeks advice from CA Dev as to number of independent directors to be part of audit committee of this company.

On the basis of the abovementioned facts, you are required to answer the following MCQs:

Incs.27.1	Is the act of CA Dev of charging 2% consultancy fees for amount raised by startups a professional misconduct? Please answer specifying the relevant clause.
	<p>(a) No, it is not a misconduct if a specific permission is granted by the ICAI in this regard under Regulation 190A.</p> <p>(b) No, it is not a misconduct. Regulation 192 allows CA to charge percentage based fees in case of fund raising services.</p> <p>(c) Yes, it is a misconduct under clause 10 Part (1) of First Schedule.</p> <p>(d) Yes, it is a misconduct under clause 3 Part (1) of First Schedule.</p>
Incs.27.2	Can CA Dev accept the appointment of statutory auditor of Health life insurance company? Give the reason for your opinion.
	<p>(a) Yes, as the total number of audits a CA can perform is 20, hence CA Dev can accept 1 more statutory audit.</p> <p>(b) Yes, as the total number of audits of life insurance company a CA can perform is 3, hence CA Dev can accept 1 more statutory audit of Health life insurance.</p> <p>(c) Yes, as the total number of audits a CA can perform is 20 and total life insurance companies; audits a CA can perform is 3, hence CA Dev can accept 1 more statutory audit of Health life insurance company.</p> <p>(d) No, as the total number of audits of life insurance company a CA can perform is 2, hence CA Dev cannot accept 1 more statutory audit of Health life insurance company.</p>
Incs.27.3	What is the type of treaty that Safety Limited has signed with Help Limited for reinsuring its Marine business?
	<p>(a) Surplus proportional treaty reinsurance.</p> <p>(b) Quota share proportional treaty reinsurance.</p> <p>(c) Facultative reinsurance.</p> <p>(d) Non- proportional treaty reinsurance.</p>
Incs.27.4	What is the type of treaty that Safety Limited has signed with Help Limited for reinsuring its Star hotel's assets?
	<p>(a) Facultative reinsurance.</p> <p>(b) Proportional treaty reinsurance.</p>

	(c) Quota share proportional treaty reinsurance. (d) Surplus proportional treaty reinsurance.
Incs.27.5	Which of the following statements is correct for Tata Tea Ltd. In regard to section 148 of the Companies Act, 2013 read with Rule 4 on Applicability of cost audit?
	(a) Tata Tea Ltd. will have to maintain cost records and would also be subject to cost audit as turnover of previous financial year is more than Rs. 50 crore. (b) Tata Tea Ltd. will have to maintain cost records and would also be subject to cost audit as turnover of previous financial year is more than Rs. 35 crore. (c) Tata Tea Ltd. will have to maintain cost records but would not be subject to cost audit. (d) Tata Tea Ltd. is not required to maintain cost records.
Incs.27.6	In relation to Corporate Governance and in compliance of Regulations 17 and 17A, what should be the minimum number of independent directors on the board of Premium Ltd.?
	(a) 8. (b) 6. (c) 11. (d) 2.
Incs.27.7	What should be correct statement from below in regard to number of independent directors for audit committee of Premium Ltd?
	(a) There should be at least 5 independent directors in audit committee and 5 directors should have knowledge to read the financial statements. (b) There should be at least 5 independent directors in audit committee and 9 directors should have knowledge to read the financial statements. (c) There should be at least 6 independent directors in audit committee and 9 directors should have knowledge to read the financial statements. (d) There should be at least 6 independent directors in audit committee and 6 directors should have knowledge to read the financial statements.
Incs.28	(S22M)
	<p>Speak Ltd. is an industry providing telecommunication services and is operating in a completely automated environment. It uses software such as 'Call Data Record package' for capturing revenue from telecommunication services, 'HRMS package' for processing pay of employees and Sanchar soft for capturing special transactions on franchisee transactions. All these software data culminate into the SAP software used for financial accounting and reporting.</p> <p>Speak Ltd., as an industry is subjected to various risks such as technology risks, security risks, operational risks etc. which may prevent the company from achieving its business objectives. The entity may also be subject to risk pertaining to the use of IT systems. The auditor of the company during the course of the audit has found the following issues:</p> <p>Issue1: Speak Ltd. has issued material for tower works worth Rs. 30 crore on 10th October 2021 and this entry made by a staff is approved by the assistant store manager and the store manager. The very next day the staff who entered the data found that there is some clerical error and store worth only Rs. 29.8 crore was issued. He made the changes immediately and the system accepted the same without the approval of assistant store manager and store manager. Issue2: Speak Ltd. is showing a commission expense of Rs. 2 crore during the month of October 2021. The auditor has made an effort to understand the business process that makes up this financial statement line item as to how it is initiated, recorded, approved, posted and reported. During this exercise, he finds that there is a difference of Rs. 1,50,000/- in the commission recorded as per the Sanchar Soft software (source) and commission as reflected in SAP accounts. (destination).</p>

<p>Issue 3: While verifying the salary expense of employees, the auditor has been asked to rely on the values as per SAP software and some hard copy reports and documents as the HRMS package (source software) has become corrupt during the year and the management is not having any data backup.</p> <p>With the above information, answer the following questions by choosing the correct option?</p>	
Incs.28.1	<p>What is the terminology for the formal program or framework that is implemented across an enterprise or company for enabling risk management?</p> <p>(a) Risk assessment process. (b) Enterprise Risk Management. (c) Corporate Risk Management. (d) Automated environment risk management.</p>
Incs.28.2	<p>What kind of a risk in the automated environment is observed by the auditor in "issue 1"?</p> <p>(a) It is an entity level risk related to governance, organization and management of IT. (b) It is a risk in the IT processes and procedures being followed in terms of unauthorized access. (c) There is no material risk involved in the issue observed by the auditor. (d) It is a manual internal control risk and not connected to any automated controls in the system.</p>
Incs.28.3	<p>What is the kind of risk assessment carried out by the auditor in case of " issue 2"?</p> <p>(a) It is an evaluation of risks and controls at process level. (b) It is a direct entity level control evaluation. (c) It is an indirect entity level control evaluation. (d) There is no risk assessment as such carried out by auditor in issue 2.</p>
Incs.28.4	<p>What should the auditor do about the difference identified in" issue 2"?</p> <p>(a) The auditor should carry out further procedure of inquiry, obtain additional evidence on the matter and discuss with management before deciding on the audit reporting requirement. (b) The auditor should issue an adverse opinion on deficiency on internal control directly as it is a clear difference. (c) The amount is not material considering the business volume and hence the auditor may inform the management orally. (d) The auditor should issue a qualified opinion on deficiency of internal control directly as it is a clear difference.</p>
Incs.28.5	<p>How should the auditor deal with "issue 3"?</p> <p>(a) The auditor should issue a qualified opinion as records are destroyed and he is unable to obtain sufficient appropriate audit evidence. (b) The auditor should perform alternative procedures to obtain sufficient and appropriate audit evidence before disclaiming the opinion. (c) The auditor should issue an adverse opinion stating that it is deficiency in internal controls. (d) The auditor can rely on the SAP data and there is no need for qualification of report.</p>
Incs.29	(S22M)
<p>AB & Co., Chartered Accountants are having 4 partners- Mr. A, Mr. B, Mr. C and Mr. D respectively. Head office is situated at New Delhi with 2 branch offices at Mumbai and Kolkata. The Firm was founded in the year 1983.</p> <p>Mr. A looks after Internal Audit assignments. Mr. B and Mr. C head Income Tax Audits and consultancy. Mr. D specializes in Company Audits and Bank Audits.</p> <p>Firm is empanelled with the Comptroller Auditor General of India (CAG), Reserve Bank of India (RBI) and the Income Tax Department for conducting Special Audits</p>	

During the statutory audit of PQR Ltd. (a Listed company) for FY 2020- 2021, following observations were noted by Mr. Z (an articled assistant):

- ❖ The company's accounts have been prepared on IND-AS Basis as specified by The Companies Act, 2013
- ❖ There was a major fire at the plant on 3rd April 2021 which destroyed stocks worth Rs. 40 lakh, approximately equal to 35% of the total stock in hand.
- ❖ The company acquired 53% shares of Subsidiary Ltd. on 1st March 2021 However it sold all shares on 15th October 2021.
- ❖ The Company is having 1 crore Equity Shares @ Rs. 10 as its Paid up Capital.
- ❖ During the Year Company declared dividend of Rs. 1 per share out of current year profits.
- ❖ Mr. Z was offered 0.5% of total profits of AB & Co. for performing very well in the audit of PQR Ltd. by Mr. D as a token of appreciation.

On the basis of the abovementioned facts, you are required to answer the following MCQs:

Incs.29.1	Whether preparation of Consolidated Financial Statements is required for FY 2020-2021 for PQR Ltd?
	<p>(a) No, since the control is temporary as the shares are held for disposal in near future, the consolidation is not required as per IND AS 110.</p> <p>(b) No, since the control is temporary as shares are held with a view for disposal in near future and it should be presented as asset held for sale under IND AS 105.</p> <p>(c) No, since as per section 129(3) of the Companies Act, 2013, only disclosure in notes shall be sufficient.</p> <p>(d) Yes, it is required under IND AS 110.</p>
Incs.29.2	Regarding the loss by fire, what is the correct course of action for the financial statements for 2020-21 as per IND AS 10?
	<p>(a) Disclose the loss by fire in the notes, do not adjust the financial statements.</p> <p>(b) Write off the stock lost by fire totally as on 31.03.2021.</p> <p>(c) Make a provision for loss by fire on 31.03.2021 and pass actual write off entry on 3.04.2021, the date of fire.</p> <p>(d) Neither adjust the loss nor disclose in the notes as the loss does not relate to FY 2020-21.</p>
Incs.29.3	Is Mr. D liable for professional misconduct by sharing profit with Mr. Z? If yes, under which clause?
	<p>(a) No, as the profits were given as a token of appreciation</p> <p>(b) Yes, under clause (2) Part I of First Schedule.</p> <p>(c) Yes, under clause (2) Part I of Second Schedule.</p> <p>(d) Yes, under clause (1) Part II of Second Schedule.</p>

Incs.30	(S22M)
	<p>Kaai (P) Ltd. is involved in the wholesale business of vegetables across various cities of India. The company delivers all the orders using its own vehicles. However, during peak season, the company would hire vehicles to deliver its orders. M/s PAZH & Co. Chartered Accountants were the auditors of the company for past two years. For the year ended 31st March 2021, the statutory & tax audit was conducted by the firm, and following were the observations made:</p> <p>Observation - 1: During the year, the company had made payment for three invoices of (I-1) Rs. 17,500/- , (I-2) Rs. 18,750/-, (I-3) Rs. 11,250/- to M/s Rent Vehicles Ltd. for services of hiring vehicles (I-1&2 above) and for wages for the driver sent by them (I-3 above). All payments were settled by way of cash on 15th March (I-1) and 23rd March (both I-2&3)</p> <p>Observation – 2: On 31st March the company had taken insurance (value insured = Rs. 1 lakh) for its new godown and the premium was to be paid on next day. However, on the night of 31st, a huge fire</p>

accident took place and goods worth Rs. 1.5 lakh were lost. The company informed the insurance agent about the incident and included the loss value as receivables in its financials.

Observation – 3: With respect to the expenditure made by the company, the following were to be disclosed in tax audit report, but the management did not accept the decision of the auditor.

(i) The company had incurred Rs. 40,000/- towards advertisement expenditure on a brochure/pamphlet published by a private educational institution in Pune.

(ii) The company reimbursed Rs. 18,000/- to its employees who had incurred the expenses on entrance fees paid to a club.

(iii) The company had an idle land near to one of its godown. It had employed 5 farmers to cultivate rice and had made an income of Rs. 13 lakh by selling the output. The salary paid to the 5 employees and other costs amounting to Rs. 2 lakh were debited to the profit & loss account of the company.

Observation – 4: The company was operating with same share capital which it had since inception (i.e. Rs. 95 lakh). During the year, it had made a turnover of Rs. 158 lakh and its borrowings stood at Rs. 58 lakh as on 31st March, which was after settling a loan of Rs. 43 lakh taken from SBI on 24th March. The amount of Rs. 58 lakh was the balance of term loan taken in the earlier year and after repayment of instalments in the current year as and when due.

After completion of the above audit, the firm received the following assignments:

(i) Offer to be appointed as internal auditor of HH Ltd.

(ii) Offer to be appointed as statutory auditor of HH Employees Provident Fund.

(iii) Offer to be appointed as statutory auditor for YY Bank and simultaneously, they were also appointed to perform stock audit of its branch.

(iv) To act as financial advisor to M/s NBE Mutual Fund Ltd. for a professional fee of ` 1 lakh per annum.

The audit firm feared that it would attract professional misconduct and regulatory issues if it takes up all the assignments and hence gave up all the offers.

On the basis of the abovementioned facts, you are required to answer the following MCQs:

Incs.30.1	With regards to tax audit of Kaai (P) Ltd., what should the auditor do with respect to observation - 1?
	<p>(a) He need not report anything as the cash payments as well within limits specified in Income tax Act.</p> <p>(b) Disallow Rs. 17,500/- and give the details of the same under clause 21 of tax audit report.</p> <p>(c) Disallow Rs. 18,750/- & Rs. 11,250/- and give the details of the same under clause 21 of tax audit report.</p> <p>(d) Disallow Rs. 11,250/- and give the details of the same under clause 21 of tax audit report.</p>
Incs.30.2	Regarding observation - 2, what should be the right value to be recognised by the company as receivables from the insurance company?
	<p>(a) Zero.</p> <p>(b) Rs. 1 lakh.</p> <p>(c) Rs. 1.5 lakh.</p> <p>(d) Rs. 50,000/-.</p>
Incs.30.3	From the observation - 4, can you suggest whether CARO 2020 is applicable to the company or not? What is the reason?
	<p>(a) No, as per para 1 of CARO 2020, private limited companies are exempt.</p> <p>(b) Yes. Since the paid-up capital of the company exceeds the specified limits, CARO 2020 is applicable.</p> <p>(c) Yes. Since the turnover of the company exceeds the specified limits, CARO 2020 is applicable.</p> <p>(d) Yes. Since the borrowings of the company exceeds the specified limits, CARO 2020 is applicable.</p>

Incs.30.4	Which among the points under observation – 3 should be reported by the auditor in the tax audit report?
	<p>(a) (i) & (ii). (b) (ii) & (iii). (c) (i) only. (d) (ii) only.</p>
Incs.30.5	Does the act of being appointed as financial advisor to M/s NBE Mutual Fund Ltd attract professional misconduct? What is the reason?
	<p>(a) No. As per the decisions of ethical standard board of ICAI, only if the firm acted as equity research advisor it would attract professional misconduct. (b) Yes. As per the decisions of ethical standard board of ICAI, the firm cannot act as financial advisor for a Mutual fund company and receive fees from them. (c) No. Only if the firm acted as financial advisor to NBFC or Insurance company, it would attract professional misconduct (d) No. As per the decisions of ethical standard board of ICAI, only if the firm acted as financial advisor for commission income, it would attract professional misconduct</p>
Incs.30.6	Among the assignments (i), (ii) and (iii) given in the scenario which PAZH & Co. received, undertaking which would have led to professional misconduct?
	<p>(a) (ii) only. (b) Both (i) & (ii). (c) (iii) only. (d) (i) only.</p>

Incs.31	(S22M)
	<p>M/s. Suresh & Co., a partnership firm, has been appointed, for the 7th consecutive year, as the statutory auditor of Alkis Ltd., an unlisted public company, for financial year 2020-21.</p> <p>Mr. Suresh is the engagement partner for the audit assignment of Alki s Ltd. The engagement team, before starting the assignment, was made to read the policies and procedures designed to achieve desired quality control, with respect to the type of assignment being undertaken.</p> <p>Mr. Suresh, referred the engagement letter, signed with the management initially and was considering whether there was a requirement to send a new engagement letter, in light of following circumstances in the Company during FY 2020-21:</p> <ul style="list-style-type: none"> • Two senior whole time directors of the Company have retired out of total five directors. • 40% stake in the Company was held by promoters, which was reduced to 5%, by selling shares to general public. • One more factory unit was set up in Gorakhpur, this year. • Management has requested to cover 90% of the transactions with respect to each revenue line item, this time, instead of 80% of the transactions, as was set out in the audit plan, considering the materiality and other factors. <p>The following data is presented from the audited financial statements of Alkis Ltd., for the financial year 2019-2020:</p> <p>(I) Paid up share capital - Rs. 8 crore; (II) Turnover - Rs. 55 crore; (III) Outstanding Borrowings - Rs. 14 crore; (IV) Outstanding Public Deposits - Rs. 28 crore.</p>

Mr. Suresh while preparing a report under section 143 of the Companies Act, 2013, made a statement with respect to the remuneration paid by the Alkis Ltd. to one of its directors, Mr. Mahesh, was in excess of the limit laid down under section 197 and also gave such other details as prescribed.

Mr. Suresh, for additional reporting purpose, while auditing with respect to compliance with CARO, 2020, observed the following, relevant to Para 3(vii) of CARO, 2020:

Statutory Dues Undisputed	Amount (Rs. in lakh)	Date Payable	Date Paid
Income Tax Demand for A.Y. 2018-19	2	25th September, 2020	28 28th March, 2021
GST	1.5	3rd October, 2020	4th April, 2021
Customs Duty	0.80	20th September, 2020	10th April, 2021
Provident Fund	0.45	12th October, 2020	Not Paid till date

Also, a representation was made to GST Department for waiving a penalty of Rs. 1 lakh for late payment of GST demand. The board of Alkis Ltd. declared interim dividend of Rs. 20 lakh on 20th May, 2021, to its 180 shareholders, out of surplus in the profit and loss account and such dividend amount was deposited in a separate bank with a branch of SBI.

Dividend amounting to Rs. 1 lakh was not claimed by a shareholder, Mr. Rohit, till 19th June, 2021, and so the said amount of Rs. 1 lakh was transferred to Unpaid Dividend Account on 31st July, 2020.

On the basis of the abovementioned facts, you are required to answer the following MCQs:

Incs.31.1	Which of the following option is correct with respect to Alkis Ltd.?
	<p>(a) Alkis Ltd. needs to form an Audit Committee. Further, provisions relating to internal audit as well as rotation of auditors are applicable to Alkis Ltd.</p> <p>(b) Alkis Ltd. need not to form an Audit Committee. Further, provisions relating to internal audit is not applicable to Alkis Ltd. However, the provisions with respect to rotation of auditors are applicable to it.</p> <p>(c) Alkis Ltd. need not to form an Audit Committee. Further, provisions relating to rotation of auditors is not applicable to Alkis Ltd. However, the provisions with respect to internal audit are applicable to it.</p> <p>(d) Alkis Ltd. needs to form an Audit Committee. Provisions relating to internal audit is applicable to Alkis Ltd. However, the provisions with respect to rotation of auditors are not applicable to it.</p>
Incs.31.2	Under which section of the auditor's report, Mr. Suresh needs to report with respect to the excess remuneration being paid to Mr. Mahesh?
	<p>(a) Other Matters Paragraph.</p> <p>(b) Report on Other Legal and Regulatory Requirements.</p> <p>(c) Basis for Qualified Opinion.</p> <p>(d) Auditor's Responsibilities for the Audit of the Financial Statements.</p>

Incs.31.3	What total amount of statutory dues needs to be reported by Mr. Suresh as per Para 3 of CARO?
	<p>(a) Rs. 2.75 lakh. (b) Rs. 0.80 lakh. (c) Rs. 2.80 lakh. (d) Rs. 2.30 lakh.</p>
Incs.31.4	How much amount of interest Alkis Ltd. would be liable to pay with respect to unpaid dividend amount?
	<p>(a) Rs. 575. (b) Rs. 1,216. (c) Rs. 1,726. (e) Rs. 1,151.</p>
Incs.31.5	By what date, the amount of interim dividend should have been deposited in the scheduled bank after being declared and also by what date, the unpaid or unclaimed dividend amount should have been transferred to Unpaid Dividend Account?
	<p>(a) 25th May, 2021 and 24th June, 2021, respectively. (b) 25th May, 2021 and 26th June, 2021, respectively. (c) 30th May, 2021 and 19th July, 2021, respectively. (d) 27th May, 2021 and 26th June, 2021, respectively.</p>

Incs.32	(S22M)
	<p>Victor & Co; a reputed Chartered Accountants firm is appointed as a Statutory auditor of Copper Man Creations Limited. The Company is into manufacturing of robotic products. The Company has advanced in all its endeavours by supplying million Copper suits. The Company has started the production of version 10 under its flagship and tags it as “Why to worry about a vehicle, when you have steel man”. The main idea of the Company evolved after the promoter watched the Marvel series Iron Man. The product has been promoted by Robert Downy Jr as its product Brand Ambassador. The Company expects itself to manufacture these prototypes and expects the old prototypes to be obsolete due to the demand for version 10. Each version of the product has a separate department and promotes their sales under the single flagship of ‘Copper Man’ and thus, the managerial decision making is left to each version manager. You have assigned the ‘Fixed Assets area’ to Mr. Mamma Mia and he came out to you with the following points.</p> <p>You need to answer the questions raised by him and go through the notes prepared to reach an able conclusion over Property, Plant and Equipment FSLI (Financial Statement caption):</p> <ul style="list-style-type: none"> • The Company is holding the property in its name in Andaman & Nicobar while the land is registered in another person’s name. The property is in dispute for the past 20 years. This is the major plant for the Company and it is the critical success factor for the client. The Company’s 80% of the revenue is derived from this factory. When enquired with management, it would have to incur huge costs to relocate and the present advantageous conditions of the plant are very critical for the product manufactured. The Company has not conducted the physical verification of fixed assets since last 10 years but it has conducted the verification at other locations every year. When enquired with management, the Company explained it is highly impossible as the plant is 24*7 running and it couldn’t be halted as the restart of operations will cost huge amounts and a month’s time to get the Company back to current position. • The audit team has come across a transaction where the Company is enjoying the property rent free. The audit team is of the opinion that the provisions of Benami transactions (Prohibition) Act, 1988 might apply in such scenario. This should be evaluated as part of CARO reporting. No other procedures in this regard need to be performed. • The Company follows the depreciation policy as per the Schedule II across all the factories even when the factory at Andaman & Nicobar is the only factory that runs 24*7. The useful

life has been taken as it is mentioned in the Schedule II without modifications and the Company's future prospects are good, there are no impairment indications.
 On the basis of the abovementioned facts, you are required to choose the most appropriate answer for the following MCQs:
 On the basis of the abovementioned facts, you are required to choose the most appropriate answer for the following MCQs:

Incs.32.1	The audit team has asked you about the Benami Transaction:
	<p>(a) There is no requirement for the auditor to report the transaction as there are no proceedings initiated or pending against the Company under the Benami Transactions (Prohibition) Act, 1988.</p> <p>(b) As the auditor is not sure about the transaction and did not gather proper evidence, he can ignore the transaction. The auditor needs to obtain the representation letter and note the same as a follow up point for the next year audit.</p> <p>(c) The auditor needs to obtain the additional evidence about the transaction. He needs to assess the situation as to its impact over the financial statements along-with consideration of SA 250. Thus, he should consider the seriousness of matter and should assess the impact of the same over the report even though it is not required to be reported as part of CARO</p> <p>(d) The auditor needs to report such matter as a part of CARO as it might turn into a potential issue under the Benami Transactions (Prohibition) Act, 1988.</p>
Incs.32.2	The audit team has asked you about the implications of dispute on the Property, Plant and Equipment and whether any additional considerations/reporting are needed for the same:
	<p>(a) The dispute on account of Property, Plant and Equipment is a civil case and one or the other Company may face such consequences. Thus, no additional audit procedures are required. However, auditor may report this fact under CARO.</p> <p>(b) The Property, Plant and Equipment is in dispute and the Company has to incur huge costs to identify the ideal plant with same conditions. Thus, this might amount to material uncertainty on the Company's side to continue as a going concern. Thus, he needs to report the same. However, he need not to report under CARO.</p> <p>(c) The Property, Plant and Equipment is under dispute, the auditor needs to report it as a key audit matter and request the Company to disclose it in notes to accounts in a single line that the property is in dispute. However, he need not to report under CARO.</p> <p>(d) The Company's major line of business is from the factory, which is under dispute, the audit team need to consider the status of the case and assess its implications over the going concern assumption of the Company if it loses its case. It should also report it as part of Sec 143(3) about the Company's financial transactions or matters which have an adverse impact on the functioning of the Company. It also needs to be reported as per CARO.</p>
Incs.32.3	The audit team has asked you about the impairment of assets of the Company.
	<p>(a) The Company has no impairment condition as the Company expects positive future cash flows from the assets and thus no need to assess the impairment.</p> <p>(b) The Company need to assess the impairment condition for the assets and need to assess the fair value of the assets used to generate income from the older versions. The auditee needs to take a decision based on the cash inflows of a Company as a whole for assessing the existence of the impairment condition.</p> <p>(c) There exists an impairment condition as the Company does not expect much business from the older versions due to anticipation of the huge demand of the new product. The Company need to assess the cash inflows at each version level.</p> <p>(d) The Company need not assess impairment of assets as this is very common in dynamic industries where the older versions become obsolete when the new one is introduced by the Company.</p>
Incs.32.4	The audit team is skeptical about the Depreciation policy followed by the Company for the Andaman and Nicobar plant:
	<p>(a) As the Company is following the Schedule II, the depreciation policy and the useful life is in line with the Companies Act, 2013. Hence the Company's depreciation policy is good to go.</p>

	<p>(b) As the Company is operating the plant 24*7, it will be eligible for extra shift depreciation as per Schedule II. For the assets where the condition of extra shift depreciation does not exist, the Company will be eligible to claim 50% extra depreciation as per schedule II.</p> <p>(c) As the Schedule III is applicable for the whole Company, the policy including useful life for the assets need to be same. There cannot be different useful lives for different assets across different locations. Thus, the depreciation policy of the Company is good to go.</p> <p>(d) As the Company is operating the plant 24*7, it will be referred to as continuous process plant. For the assets where the condition of extra shift depreciation does not exist, the Company will not be eligible to claim 100% extra depreciation as per Schedule II.</p>
Incs.32.5	The audit team has raised a question over hiring an international brand ambassador for an Indian product and raised concerns over the contract of the same:
	<p>(a) The auditor has no role to play in such scenario as the selection of brand ambassador and the running the business lies with the management. The auditor needs to go through the agreements entered, payments made etc.</p> <p>(b) The auditor needs to inform the Central Government as this might constitute a serious non-compliance of laws and regulations. The auditor should also assess the integrity of the management about the appointment of the foreign brand ambassador.</p> <p>(c) As per the SA 250, "Consideration of laws and regulations in an audit of Financials Statements" the auditor needs to assess such matters as it is a legal violation to hire an international brand ambassador ignoring the local people. The audit team need to consider the same and report in its audit report about such implications.</p> <p>(d) The auditor needs to qualify its audit report as the Company is against the "Vocal for Local" policy. The auditor needs to highlight the same in its audit report as this may lead to a serious brand deterioration of the Company.</p>

Incs.33	(S22M)
<p>CA D was a practicing Chartered Accountant in Kolkata from last 15 years. He was appointed as the statutory auditor of Giant Motors Ltd, a listed entity, which was involved in the business of manufacturing of motor cars for FY 2019-20. CA D was appointed as joint auditor along with CA T and CA P. They have divided the responsibility for conducting audit in accordance with SA 299. As the company has huge amount of property, plant and equipment, it was decided that all 3 auditors will verify the records relevant to property, plant and equipment. While forming an opinion, CA D was having a different opinion on property, plant and equipment but CA T and CA P were having same opinion. CA D wants to qualify capitalisation of post-acquisition costs incurred on machinery whereas CA T and CA P were of the opinion that the treatment done by Giant Motor is correct. Both of them contended that as they are forming a majority, CA D will have to certify common audit report which is in accordance with the opinion of CA T and CA P. While assessing the applicability of CARO, 2016, CA D found that issued share capital of Giant Motors Ltd is Rs. 500 crore along with Rs. 30 crore of calls which are being unpaid as they are receivable from retail investors. In the month of July 2019, Giant Motors Ltd. forfeited shares of worth Rs. 10 crore. There were no reserve and surplus as it was transferred to parent entity. Also, along with equity shares of Rs. 300 crore, there was preference share capital of Rs. 200 crore. CA T while reporting under clause (vi) of CARO, 2016 did not report anything under clause (vi) of CARO 2016 as the government has not ordered Giant Motors Ltd. to conduct cost audit for its books of account. Hence CA T did not report anything under clause (vi). Giant Motors Ltd has a total number of 11 directors. Mr. Talent is the Executive Chairman of the company. Out of 11 directors, 5 were independent directors.</p> <p>Mrs. D was not aware that CA D was the statutory auditor of Giant Motors Ltd. She purchased shares of Giant Motors Ltd worth Rs. 1,50,000 (book value) on 3rd October 2020 but when she came to know about the statutory auditor of Giant Motors Ltd, she sold her shares on 10th November 2020. One of the shareholders of Giant Motors Ltd contended that CA D is disqualified and shall vacate his office of statutory auditor.</p> <p>On the basis of the abovementioned facts, you are required to answer the following MCQs:</p>	

Incs.33.1	Can you please guide whether CA D really needs to go with the opinion formed by CA T and CA P or not?
<p>(a) CA D will have to go with the opinion formed by majority auditors.</p> <p>(b) CA D can add a separate audit opinion paragraph in the common audit report and the same should be highlighted in emphasis of matter paragraph.</p> <p>(c) CA D can go with the opinion formed by the majority auditors, but CA D had a difference of opinion should be highlighted in emphasis of matter paragraph.</p> <p>(d) CA D can altogether issue a separate audit report and reference of other audit report issued by majority auditors should be made in the emphasis of matter paragraph.</p>	
Incs.33.2	What should have been CA D's opinion on applicability of CARO, 2016 for FY 2019 -20 assuming forfeited shares are not included in equity share capital?
<p>(a) CARO will be applicable as paid up share capital and reserves are Rs. 480 crore which is more than Rs. 1 crore.</p> <p>(b) CARO will be applicable as paid up share capital and reserves are Rs. 480 crore which is more than Rs. 10 crore.</p> <p>(c) CARO will be applicable as paid up share capital and reserves are Rs. 280 crore which is more than Rs. 1 crore.</p> <p>(d) CARO will be applicable as paid up share capital and reserves are Rs. 280 crore which is more than Rs. 10 crore.</p>	
Incs.33.3	Was the approach followed by CA T for not reporting under clause (vi) of CARO correct?
<p>(a) Yes, as reporting under said clause is required only if the Giant Motors Ltd were ordered by government to conduct cost audit under section 148(1).</p> <p>(b) Yes, reporting under this clause is only applicable to entities involved in production of electricity.</p> <p>(c) No, Clause (vi) should be reported irrespective of whether Giant Motors Limited has been ordered to conduct cost audit by the Central Government or not.</p> <p>(d) No, should be reported only if there is any discrepancy found while examining the cost records.</p>	
Incs.33.4	Was there any non-compliance on the part of Giant Motors Ltd in case of appointment of independent directors?
<p>(a) No, there was no non-compliance as independent directors were more than 2 directors specified in the Companies Act, 2013.</p> <p>(b) Yes, there was a non-compliance as there should have been more than 6 independent directors specified in Regulation 17 and Regulation 17A.</p> <p>(c) No, there was no non-compliance as independent directors were 5, which is more than 2/3 of the total directors in accordance with Regulations 17 and Regulation 17A.</p> <p>(d) Yes, there was a non-compliance as all the directors should have been independent directors except the Chairman of the company.</p>	
Incs.33.5	Was the contention of shareholder that CA D should vacate the office of statutory auditor correct?
<p>(a) No, as Mrs. D has sold the shares within a grace period of 60 days.</p> <p>(b) No, as Mrs. D is holding shares of less than book value of Rs. 2,00,000.</p> <p>(c) Yes, as Mrs. D has purchased shares which are more than book value of Rs.1,00,000.</p> <p>(d) Yes, as Mrs. D hold share during the financial year and his husband is statutory auditor of Giant Motors Ltd.</p>	
Incs.34	(S22M)
<p>Well & Associates, an audit firm, was selected for the purpose of Quality Review by the Quality Review Board (QRB) as it was having many of statutory audit assignments of clients engaged into sectors identified as prone to fraud.</p> <p>There were adverse findings by the Technical Reviewer in the Quality review conducted in the past of Mr. Ramesh an engagement partner of Well & Associates because of which the QRB selected 5 audit engagements of the firm for Quality review.</p>	

Mr. Jay, a practicing CA for more than 25 years was appointed as the Technical Reviewer to conduct the Quality Review of the said firm and accordingly, Mr. Jay, after conducting the Quality review with a team of 3 assistants, submitted his preliminary report to Well & Associates with qualifications as under

Sr. No.	Description of Qualifications
1	The AFUR (Audit Firm Under Review) had not obtained a written confirmation of compliance with its policies and procedures on independence from all firm personnel for the past 2 financial years.
2	The AFUR had established the policies and procedures for assembling of the final audit file in accordance with the time limit prescribed in SA 230 but there were delays observed in the same. (Please Refer Note, as below, for the same)
3	For two of the audit engagements of the AFUR, no engagement documentations were available for the same and as per the statement of the partner of the AFUR, after retaining them for 4 years and 6 years, respectively, were sent to the Principal Auditors of the said audit engagements.
4	There were also instances of delays observed in communicating the significant deficiencies to those charged with governance. (Please Refer Note, as below, for the same)
5	The AFUR had revised its performance materiality level in case of one of its statutory audit assignments with respect to auditing of Financial Leasing transactions and the AFUR had only documented such revision in the performance materiality level.

Note:

Name of the entity under audit of AFUR	Type of Entity	Date of Approval Financial Statements	Date of Audit Report	Date of assembly of Final Audit File	Date of written communication of significant deficiencies in internal control by AFUR
Req Ltd.	Listed	31.05.2021	25.06.2021	03.09.2021	05.06.2021
TIMCO (P) Ltd.	Unlisted	15.06.2021	18.08.2021	05.11.2021	25.08.2021
Gles Pvt. Ltd.	Unlisted	16.07.2021	28.07.2021	15.09.2021	18.09.2021
Findey Ltd.	Listed	12.05.2021	01.06.2021	01.08.2021	05.05.2021
DM Ltd.	Unlisted	25.04.2021	18.05.2021	25.06.2021	

On the basis of the abovementioned facts, you are required to answer the following MCQs:

Incs.34.1	Well & Associates should have obtained a written confirmation of compliance with its policies and procedures on independence from all of its firm personnel as per requirements of which Statute / Standard and in what frequency?
	<p>(a) As per the requirements of Council Central Guidelines, 2008, at least annually, Well & Associates should have obtained a written confirmation from all of its firm personnel.</p> <p>(b) As per the requirements of Standard on Quality Control 1 at least annually, Well & Associates should have obtained a written confirmation from all of its firm personnel.</p> <p>(c) As per the requirements of SA 220 at least annually, Well & Associates should have obtained a written confirmation from all of its firm personnel.</p>

	(d) As per the requirements of Code of Ethics at least half yearly, Well & Associates should have obtained a written confirmation from all of its firm personnel.
Incs.34.2	In case of which entities under audit of Well & Associates, there was delay in assembly of Final Audit File?
	<p>(a) Req Ltd., TIMCO (P) Ltd., Gles Pvt. Ltd. and Findey Ltd., respectively.</p> <p>(b) Req Ltd., TIMCO (P) Ltd. and Findey Ltd., respectively.</p> <p>(c) Req Ltd. and TIMCO (P) Ltd., respectively.</p> <p>(d) Req Ltd., TIMCO (P) Ltd., Gles Pvt. Ltd., Findey Ltd. and DM Ltd., respectively.</p>
Incs.34.3	In case of which entities under audit of Well & Associates, there was delay in written communication of significant deficiencies in internal control?
	<p>(a) TIMCO (P) Ltd., Gles Pvt. Ltd. and DM Ltd., respectively.</p> <p>(b) Req Ltd., TIMCO (P) Ltd., Gles Pvt. Ltd. and DM Ltd., respectively.</p> <p>(c) DM Ltd.</p> <p>(d) Req Ltd., Gles Pvt. Ltd. and DM Ltd., respectively.</p>
Incs.34.4	For at least how many more years, Well & Associates should have retained the engagement documentation in respect of the two audit engagements as referred above?
	<p>(a) 3 years and 1 year, respectively.</p> <p>(b) 4 years and 2 years, respectively.</p> <p>(c) 1 year and for other audit engagement documentation was retained for requisite period.</p> <p>(d) 6 years and 4 years, respectively.</p>
Incs.34.5	How many audit engagements of Well & Associates the QRB might have selected if there were no adverse findings by the Technical Reviewer in the Quality review conducted in the past of Mr. Ramesh, partner of Well & Associates?
	<p>(a) QRB might have selected up to 3 audit engagements of Well & Associates for review and not more than 2 audit engagements of Mr. Ramesh.</p> <p>(b) QRB might have selected up to 5 audit engagements of Well & Associates for review and not more than 1 audit engagement of Mr. Ramesh</p> <p>(c) QRB might have selected up to 5 audit engagements of Well & Associates for review and not more than 2 audit engagements of Mr. Ramesh</p> <p>(d) QRB might have selected up to 3 audit engagements of Well & Associates for review and not more than 1 audit engagement of Mr. Ramesh.</p>
Incs.35	(S22M)
	<p>Arogya Pradhan Limited is a public company incorporated in September 2011 with a registered office in Chennai. The company is in business of Healthcare services. The company has 151 Ayurvedic clinics and 303 Ayurvedic pharmacies throughout the country.</p> <p>In the previous year, company achieved turnover of Rs. 3,000 crore and had earned the Net Profit of Rs. 25 crore. The company had borrowed a term loan of Rs. 100 crore from State Bank of India.</p> <p>M/s Bright Moon LLP are appointed as statutory Auditors of the company for the year 2020-21. After completing the initial engagement procedures and audit planning, the audit team started with the verification of Internal Financial Controls of the company.</p> <p>While understanding the controls established by the management in the 'Revenue Process', the audit team observed that there is only one Review Control wherein 20 executives had to prepare the sales invoice and Mr. Darshan - Sales Manager, had to review and authorise all the invoices. It was observed that on many occasions, Mr. Darshan had more than 1000 invoices to authorise in a single day. Further, he has frequently asked 2 senior most executive to review pending invoices and he has relied on them by directly giving his authorization on the invoice. It was observed that Mr. Darshan did not take any leave during the entire year. It was observed that Mr. Darshan's performance bonus was linked with</p>

number of invoices authorised by him. In addition, Mr. Darshan was the sole authority to approve the sales commission and sales discount which was to be applied by the customers.

The audit team has set Rs. 30 crore as materiality based on 1% of Turnover. For selecting the samples, Mr. Santosh – Audit Executive, used the below mentioned formula:-

Ledger Balance * 100

Materiality * 365 days

Mr. Santosh selected 30 samples for the verification of above mentioned "Review Control". It was observed that out of 30 samples, 20 samples had irregularities in invoices which was clearly due to improper functioning of review control. The amount of irregularity in 20 invoices amounted to Rs. 4 crore. The auditor still issued the clean audit report and took the written representation letter from the management for efficient implementation of Internal Financial Controls. On the basis of the abovementioned facts, you are required to answer the following MCQs:

Incs.35.1	Is the Control "Designed" appropriately?
	<ul style="list-style-type: none"> (a) No, because there are irregularities amounting to Rs. 4 crore in the samples selected by Auditors. (b) No, because Mr. Darshan's performance bonus is linked with number of invoices authorised. (c) No, because there are no leave taken by Mr. Darshan during the entire year. (d) Yes. 'Review Control' is designed appropriately.
Incs.35.2	Is the Control "Implemented" effectively?
	<ul style="list-style-type: none"> (a) No, because Mr. Darshan delegates his work of review to other executives who are senior in experience. (b) No, because Mr. Darshan is heavily burdened with excessive work. (c) No, because Mr. Darshan is authorized to finalize sales commission and sales discount. (d) Yes. 'Review Control' is implemented appropriately.
Incs.35.3	In the above case, to whom should M/s Bright Moon LLP report first?
	<ul style="list-style-type: none"> (a) To ROC. (b) To Central Government u/s 143(12) of Companies Act, 2013 as the impact in above case is more than Rs. 1 crore. (c) To Those Charged with Governance. (d) To Shareholders as they are the appointing authority.
Incs.35.4	How samples are to be selected for the purpose of verification of Internal Financial Control?
	<ul style="list-style-type: none"> (a) Monetary Unit Sampling. (b) Sampling based on Materiality. (c) Sampling based on probability of default of the control. (d) Sampling based on frequency of functioning of control.
Incs.35.5	In the current scenario, how should M/s Bright Moon LLP report?
	<ul style="list-style-type: none"> (a) Clean Report with Other Matter paragraph. (b) Clean Report with Emphasis of Matter paragraph. (c) Clean Report with reporting in Key Audit Matter. (d) Qualified Report (both main report and ICFR report).

Incs.36	(S22M)
	<p>Andy & Co; a reputed Chartered Accountants firm is appointed as a statutory auditor of Manava Swaroopam Limited. The Company is into manufacturing of copper products. The company has advanced in all its endeavours by supplying million Copper units. The company has incorporated another company "Daiva Swaroopam Private Limited" by investing 45% in the share capital of the company and at the same time having 100% control over the Board of Directors as per the agreement with the majority shareholder. The company is listed in the US Stock Exchange but in the process of</p>

listing in the Indian Stock Exchanges, having a net worth of INR 245 crore. The product is promoted by Ali Baba, as its product Brand Ambassador. You are the audit manager in-charge of the audit team this year and your 1st year trainee asks you the following questions listed down. He has also noted down some of the questions for you to answer to discuss the impact on the planning stage after understanding the entity and its environment:

- The company is required to appoint the Internal Auditor as per provisions of the Companies Act, 2013 and the company complied with the same by delegating the duties to an employee, who joined the company as 1st year Architect. The audit team is planning to use the work performed by the Internal Audit function as the reports given by him are designed in a marvellous fashion. Even the Board of Directors are astonished by the design of the Internal Audit report.
- The company is planning to use the working papers of the previous auditor by demanding the audit working papers from him citing the confidentiality clause. The auditor also plans to use the same for testing the opening balances during the year. The previous year auditor having been appointed as the auditor of subsidiary; the company plans to use his work for verifying the investment balance during the year.

On the basis of the abovementioned facts, you are required to answer the following MCQs:

Incs.36.1	The engagement partner has requested you to comment upon the usage of work of Internal auditor by the engagement team in accordance with relevant Standard on Auditing:
	<p>(a) As the work done by the internal auditor is marvelously designed and presented the same can be considered to the extent the statutory auditor can use it. As the work is highly appreciated even by the Board of Directors, the same should be definitely used by Andy & Co.</p> <p>(b) The work done by the Internal Auditor need to be assessed for the sufficiency and should be used to avoid the double work. The audit team of Andy & Co need to reduce the unnecessary work as the same has been performed by the other auditor.</p> <p>(c) The auditor is required to assess the competence and professional care of the work performed by the Internal Auditor. Thus, the auditor Andy & Co needs to reconsider the audit strategy and cannot use the work of the Internal Auditor.</p> <p>(d) The work performed by the internal auditor can be used by the External Auditor in this case I the architect is not an employee of the company but is in private practice.</p>
Incs.36.2	The Trainee asked whether the audit team is to perform any procedures over the investment in Daiva Swaroopam Private Limited:
	<p>(a) The company need to prepare the consolidated financial statements and the same need to be audited by the auditor and the auditor needs to consider the financial information and also assess regarding the need to use of the work of the component auditor.</p> <p>(b) The auditor needs to perform audit procedures over the balances in investments and transactions with its related party.</p> <p>(c) The auditor need not perform any procedures as the investment in Daiva Swaroopam Private Limited has already been made in the previous year.</p> <p>(d) Both (a) & (b).</p>
Incs.36.3	The trainee asked about role of auditor in case the investment in Daiva Swaroopam Private Limited is increased to 60% in the next year:
	<p>(a) The auditor need not do any additional procedures compared to this year except for audit procedures over the increase in Investment value and its disclosures in the Financial Statements.</p> <p>(b) The auditor should also audit the group consolidated financial statements as the consolidation becomes applicable for the company being the investment is raised from 45% to 60%.</p> <p>(c) The auditor needs to audit the subsidiary's books of accounts to get comfort over the balances in the material subsidiary. Thus, the audit strategy will change for verifying the investment.</p> <p>(d) The auditor can either on its own, audit the subsidiary or use the work of another auditor to get comfort over the balances in the subsidiary from the next year.</p>

Incs.36.4	The company has requested its previous auditor to give back its audit documentation (“working papers”) and warned the previous auditor with legal notice to submit them back to the company showing the confidentiality clause:
	<p>(a) The previous auditor is bound to return the workpapers as the company has raised the confidentiality clause over the audit firm. Thus, the SA – 230 is not applicable in such scenario as the original owner itself is requesting to return the working papers.</p> <p>(b) The auditor has a right over its working paper, and he is the owner of the workpapers but he cannot give the workpapers to any person even at the request of the company.</p> <p>(c) The auditor has a right over its working paper, and he is the owner of the workpapers and he may give at his discretion make available the workpapers to the company.</p> <p>(d) The auditor has a right over its working papers but the owner of them is the company. He should make available the workpapers to the company at its request and SQC-1 mandates the auditor to make copies made available to its clients.</p>
Incs.36.5	The trainee asked you whether the IND AS is applicable to the group or not?
	<p>(a) Yes, but only Manava Swaroopam Limited need to prepare its financial statements as per the Companies (Indian Accounting Standards Rules), 2015.</p> <p>(b) Yes, the Company Manava Swaroopam Limited and its subsidiaries (including associates) need to prepare its financial statements as per the Companies (Indian Accounting Standards Rules), 2015.</p> <p>(c) The Company is not required to prepare financial statements as per Companies (Indian Accounting Standards Rules), 2015 as the company’s net worth is below 250 crore and is not listed in any recognised stock exchange in India.</p> <p>(d) The Company is required to prepare books of accounts as per US GAAP as it is listed in US Stock Exchange and get the books audited by the CPA but not the Indian Chartered Accountant.</p>

Incs.37	(N21R)														
	<p>Kiwspack Ltd. is an unlisted public company incorporated in the year 2009, having 90 shareholders with an equity share capital of ` 27 lakhs. There are total four directors in its board.</p> <p>For the financial year 2020-21 as well as for the quarter ended on 30th June, 2021, Kiwspack Ltd. had suffered a loss. Despite of such loss, the board of Kiwspack Ltd. declared a total interim dividend of ` 20 lakhs for quarter ended March, 2021 on 25th April, 2021.</p> <p>The details of dividends declared by Kiwspack Ltd. during preceding financial years are tabulated, as below:-</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center;">Financial Year</th> <th style="text-align: center;">Rate of Dividend Declared</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">2019-20</td> <td style="text-align: center;">12%</td> </tr> <tr> <td style="text-align: center;">2018-19</td> <td style="text-align: center;">16%</td> </tr> <tr> <td style="text-align: center;">2017-18</td> <td style="text-align: center;">10%</td> </tr> <tr> <td style="text-align: center;">2016-17</td> <td style="text-align: center;">15%</td> </tr> <tr> <td style="text-align: center;">2015-16</td> <td style="text-align: center;">20%</td> </tr> <tr> <td style="text-align: center;">2014-15</td> <td style="text-align: center;">14%</td> </tr> </tbody> </table> <p>The said dividend was paid to the shareholders on 10th June, 2021, through account payee cheque, by withdrawing an amount of 5% from the total free reserves available with Kiwspack Ltd. The balance of free reserves after such withdrawal fell to 20% of its paid up share capital as appearing in the latest audited financial statements.</p> <p>One of the shareholders, Mr. Mahesh, had submitted a transfer deed to the company on 28 th April, 2021, for registration relating to transfer of all shares held by him in Kiwspack Ltd. in the name of Mr. Govardhan, along with an authorization letter for paying the amount of dividend on his shares to Mr. Govardhan.</p>	Financial Year	Rate of Dividend Declared	2019-20	12%	2018-19	16%	2017-18	10%	2016-17	15%	2015-16	20%	2014-15	14%
Financial Year	Rate of Dividend Declared														
2019-20	12%														
2018-19	16%														
2017-18	10%														
2016-17	15%														
2015-16	20%														
2014-15	14%														

However, till 10th June, 2020, due to certain reasons, Kiwspack Ltd. could not register the aforesaid transfer of shares in the name of Mr. Govardhan.

The dividend remaining unpaid of RS. 2 lakhs was transferred to the unpaid dividend account by the company on 15th June, 2021.

Kiwspack Ltd. prepared a statement on 30th September, 2021, containing the names of shareholders to whom payment of dividend had remained pending, their last known addresses and the amount of dividend to be paid to them. The said statement was placed on the same date on the company's website and also on the website approved by the Central Government for this purpose.

Rao & Co. is the statutory auditor of Kiwspack Ltd. for F.Y. 2020-21 which issued its audit report on 30th June, 2021 on the financial statements approved on 20th June, 2021.

On the basis of the abovementioned facts, you are required to answer the following MCQs:

Incs.37.1	At what maximum rate, the board of Kiwspack Ltd. would have declared the interim dividend for quarter ended March, 2021?
	<p>(a) 10.6%. (b) 12.67%. (c) 14.5%. (d) 15%.</p>
Incs.37.2	How much amount of interest shall be payable by Kiwspack Ltd. for delay in payment of dividend to the shareholders?
	<p>(e) Rs. 13,151. (f) Rs. 8,877. (g) Rs. 10,521. (h) Rs. 15,781.</p>
Incs.37.3	In which account, Kiwspack Ltd. would have transferred the dividend amount in relation to shares which were held by Mr. Mahesh?
	<p>(a) Account of Mr. Mahesh. (b) Account of Mr. Govardhan. (c) Unpaid Dividend Account. (d) Investor Education and Protection Fund.</p>
Incs.37.4	How much maximum amount of fine could be levied on every director of the company who was knowingly a party to the default in payment of dividend to the shareholders?
	<p>(a) Rs. 9,000. (b) Rs. 11,000. (c) Rs. 16,000. (d) Rs. 1,00,000.</p>
Incs.37.5	By what date, the unpaid or unclaimed dividend amount should have been transferred to Unpaid Dividend Account and also by what date, the statement in relation to details of such Unpaid Dividend should have been prepared by Kiwspack Ltd. and placed on its website?
	<p>(a) 01st June, 2021 and 13th September, 2021, respectively. (b) 25th May, 2021 and 15th July, 2021, respectively. (c) 01st June, 2021 and 15th July, 2021, respectively. (d) 25th May, 2021 and 13th September, 2021, respectively.</p>

Incs.38	(N21R/S22M)
<p>Ulip Ltd. is a public company listed on the National Stock Exchange since the year, 2015, with share capital of Rs. 150 crore.</p> <p>SRS & Co. is being appointed as its statutory auditor for F.Y. 2020-21 and Mr. Raj is appointed as the engagement partner, on behalf of the firm, to conduct the said audit assignment including conducting of limited reviews and other statutory assignments.</p> <p>Mr. Raj was conducting limited review for second quarter and during the same while adhering to the responsibilities as conferred upon by SA 250, "Consideration of Laws and Regulations in an Audit of Financial Statements", he evaluated the implications of non-compliance in relation to other aspects of the audit, including the auditor's risk assessment and the reliability of written representations and concluded that withdrawal from engagement was necessary in the given circumstances, after seeking legal advice, even though the non-compliance was not material to the financial statements but as the management or those charged with governance refrained from taking the remedial action that he considered appropriate in the circumstances. Such a withdrawal was not prohibited by any law or regulation.</p> <p>Mr. Raj, on behalf of SRS & Co., brought to the notice of the Audit Committee of Ulip Ltd., all his concerns with respect to the proposed resignation, along with relevant documents.</p> <p>After issuing the necessary reports, as required in the circumstances, SRS & Co gave its resignation letter to Ulip Ltd. at 1:00 p.m. on 20th November, 2021 vide its official email-id, which contained the detailed reasons for such resignation.</p> <p>Such a letter was forwarded to the stipulated authority by Ulip Ltd. at 4:00 p.m. on 21 st November, 2021 vide its official email-id.</p> <p>SRS & Co. filed the statement with respect to its resignation as a statutory auditor in prescribed form with Ulip Ltd. and the Registrar on 15th January, 2021, respectively, after receiving a notice from MCA.</p> <p>For the purpose of filling the casual vacancy in the office of auditor, the Audit Committee of Ulip Ltd. gave recommendation of an audit firm for being appointed as the statutory auditor to which the Board disagreed and it referred back the recommendation to the committee for reconsideration citing reasons for such disagreement.</p> <p>However, the Audit Committee, after considering the reasons given by the Board, decided not to reconsider its original recommendation, so, the Board of Ulip Ltd. after recording the reasons for its disagreement with the committee appointed Chavda & Co. as its new statutory auditor on 15th December, 2021.</p> <p>Such an appointment of Chavda & Co. was also approved by the members of Ulip Ltd. at a duly convened general meeting on 3rd February, 2022.</p> <p>On the basis of the abovementioned facts, you are required to answer the following MCQs:</p>	
Incs.38.1	<p>Whether the reasons for withdrawal from the engagement by SRS & Co. can be considered to be justifiable in the light of the fact that the non-compliance was not material to the financial statements?</p>
<p>(a) Yes, as such a withdrawal was not prohibited by any law or regulation.</p> <p>(b) Yes, as the auditor had obtained legal advice for the same and also such a withdrawal was not prohibited by any law or regulation.</p> <p>(c) Yes, in exceptional cases, the auditor may consider for such withdrawal provided that such a withdrawal is not prohibited by any law or regulation.</p>	

	(d) Yes, as it does not matter whether non-compliance is material or not, management or those charged with governance should not refrain from taking the remedial action which the auditor has considered necessary, provided that such a withdrawal is not prohibited by any law or regulation.
Incs.38.2	In continuation of Question no. 6, above, if it is assumed that the auditor was prohibited by any law or regulation from such withdrawal from engagement, then how he would have reported the non-compliance in the audit report?
	(a) In the "Basis for Qualified Opinion" paragraph. (b) In the Other Matter(s) paragraph. (c) In the Emphasis of Matter(s) paragraph. (d) In the "Basis for Disclaimer of Opinion" paragraph.
Incs.38.3	Ulip Ltd. was required to disclose to which authority, the detailed reasons for resignation of the auditor and by what time limit as per LODR 2015?
	(a) Such reasons were required to be disclosed to MCA till 1:00 p.m. – 21st November, 2021. (b) (b) Such reasons were required to be disclosed to NSE & SEBI till 1:00 p.m. – 23rd November, 2021. (c) (c) Such reasons were required to be disclosed to NSE till 1:00 p.m. – 21st November, 2021. (d) (d) Such reasons were required to be disclosed to the Registrar till 1:00 p.m. – 22nd November, 2021.
Incs.38.4	What could be the penalty specified under the Company Act, 2013 that could be levied upon SRS & Co. for failure in filing the statement with respect to its resignation, within the prescribed time limit, with Ulip Ltd. and the Registrar, respectively, if its remuneration was Rs. 40,000?
	(a) Rs. 62,500. (b) Rs. 50,000. (c) Rs. 40,000. (d) Rs. 52,500.
Incs.38.5	What was the last date available with board of Ulip Ltd. For filing the casual vacancy in the office of the auditor and by what last date, the general meeting for approving the auditor as appointed by the board should have been made in accordance with the provisions of the Companies Act, 2013?
	(a) 27th November, 2021 and 27th February, 2022. (b) 20th December, 2021 and 15th February, 2022. (c) 20th January, 2021 and 20th April, 2022. (d) 20th December, 2021 and 15th March, 2022.
Incs.39	(S22M)
	Vasanth & Co. is the auditor of UV Ltd., a life insurance company and a public sector undertaking. The following are the events during the course of the audit: (a) In addition to the statutory audit, the management of the company asks the auditor to certify the investment risk management system and processes of the insurance company. (b) The auditor during the course of verification finds that an amount has been refunded to one of the insured client due to free lock cancellation. The policy document has been returned by the insured within 15 days from the date the insured received it. The insurance company has retained the medical charges incurred by it and proportionate risk premium and refunded the balance premium amount. (c) The insurance company is also involved in re-insurance business and necessary provision for re-insurance premium has been made in the books of accounts. The insurance company is into a re-insurance whereby their contract relates to one particular risk and is expressed in the re-insurance policy. Each transaction is negotiated individually and each party has a free choice i.e. for the insurance company to offer and the reinsurer to accept.

Meantime, a charge has been raised against the auditor for a false statement in the prospectus. A party had relied on the statement and invested in the insurance company and has faced some damages due to growing losses of the insurance company. The auditor claims that his assistant, who is not a Chartered Accountant, had verified the contents of the prospectus.

In view of the above facts, answer the following questions by choosing the correct answer:

Incs.39.1	Can the auditor accept the assignment of Investment risk management systems and process audit? Answer by choosing the correct reasoning?
	<p>(a) No, as per IRDAI circular, a chartered accountant, which is not a statutory auditor of the concerned insurer shall certify that the investment management systems and processes are in place.</p> <p>(b) No, as per Section 144 of the Companies Act 2013, investment risk management and process audit is a prohibited service for the statutory auditor.</p> <p>(c) Yes, investment management system and process audit is a part of statutory audit and it is duty of auditor to certify the same in his audit opinion of the books of accounts.</p> <p>(d) Yes, though it is not part of statutory audit, the auditor is free to accept the assignment of certification of investment risk management system and process.</p>
Incs.39.2	Which among the following is NOT a content of the management report that is required to be prepared as per Schedule A of IRDA?
	<p>(a) Confirmation regarding the continued validity of the registration granted by the authority.</p> <p>(b) Certification that all dues payable to the statutory authorities have been duly paid.</p> <p>(c) Ageing of claims indicating the trends in average claim settlement time during the preceding five years.</p> <p>(d) Certification of the party wise list of the quantum of reinsurance business.</p>
Incs.39.3	The auditor has verified the amount refunded under free lock cancellation. Is the procedure followed by the company correct? Choose the correct reasoning.
	<p>(a) Yes, the amount is refunded correctly however the medical expense incurred cannot be retained by the insurer and that also has to be refunded.</p> <p>(b) No, the amount should not be refunded because as per free lock cancellation, the policy document should be returned within 10 days to be entitled for a refund.</p> <p>(c) Yes, the procedure followed by the company of refunding the amount after retaining medical expenses and proportionate risk premium is in order.</p> <p>(d) No, the company should refund the entire premium with no retention as this is a free lock cancellation.</p>
Incs.39.4	What kind of a re-insurance business is the insurance company into?
	<p>(a) Facultative Re-insurance.</p> <p>(b) Stop loss treaty re-insurance.</p> <p>(c) Auto-fac re-insurance.</p> <p>(d) Proportional treaty re-insurance.</p>
Incs.39.5	The auditor cannot hold the assistant responsible for the misstatement occurred solely because he has verified the same. Which among the following reasons substantiates the auditor's liability the best?
	<p>(a) The auditor should not delegate prospectus verification to assistants and he should directly verify the same and satisfy himself on the statements made thereunder.</p> <p>(b) An auditor who does not personally supervise into the accounts but merely delegated it to his assistants cannot be said to be acting with due skill and care.</p> <p>(c) As per Council General Guidelines, any work that may give rise to a civil and criminal liability should be delegated only to qualified assistants.</p> <p>(d) None of the above, recent case laws state that an auditor can escape from personal liability owing to misconduct of assistants if he has exercised due skill and care.</p>

Incs.40	(N21M/S22M)
<p>Mr. Sunil Verma is conducting the statutory audit of Upshaant Ltd., an unlisted public company, for FY 2020-21 as an engagement partner on behalf of Verma & Associates having six partners out of which four are chartered accountants and two are advocates. This was the third consecutive year of audit by the said audit firm of Upshaant Ltd. For current year's audit, a new audit engagement letter was sent by the audit firm to the company.</p> <p>Upshaant Ltd. changed its employee remuneration policy from 1st April, 2020, to provide for 12% contribution to provident fund on leave encashment also. As per the leave encashment policy, the employees can either utilize or encash it. As at 31st March, 2021, the company obtained an actuarial valuation for leave encashment liability. As and when the employees availed leave encashment, the provident fund contribution was made. The company was not sure whether the employees will avail leave encashment or utilize it and obtained consultancy of Mr. Sunil for the correct accounting treatment to be given as per the relevant IND-AS applicable.</p> <p>Because of the inherent consistency of IT processing, Mr. Sunil did not consider it necessary to increase the extent of testing of a relevant control in inventory handling and maintenance system of the company. Further, for this year's audit, Mr. Sunil observed that controls over sales order processing have been weakened due to change in hierarchy of organization which he also discussed with the management of the company through a letter of weakness.</p> <p>Mr. Sunil, based on the audit evidence available, narrowed his range for the purpose of evaluating the management's point estimate on particular items which required accounting estimates to be made as disclosed in the balance sheet of the company.</p> <p>The financial statements of Upshaant Ltd. for FY 2020-21 was required to be amended due to occurrence of subsequent events after the balance sheet date because of which the audit report was also amended by Verma & Associates which indicated that the auditor's procedures on subsequent events were restricted solely to the amendment of the financial statements described in the relevant note to the financial statements.</p> <p>Apart from receiving his remuneration as a partner in Verma & Associates, Mr. Sunil also received a sum of Rs. 90,000 as renewal commission on the Life Insurance Agency License held by him for the said purpose.</p> <p>On the basis of the abovementioned facts, you are required to answer the following MCQs:</p>	
Incs.40.1	<p>For what type of control in inventory handling and maintenance system, Mr. Sunil would have not considered it necessary to increase the extent of testing?</p>
<p>(a) Application control (b) Automated control (c) Process Level control (d) Entity Level control</p>	
Incs.40.2	<p>Whether Mr. Sunil is permitted to hold license as a life insurance agent?</p>
<p>(a) Yes, general permission has been granted by the Council of the ICAI for the said purpose. (b) (b) Yes, if specific permission has been obtained by Mr. Sunil for the same. (c) (c) No, it is not permitted for a chartered accountant to do so as per recent Decisions of Ethical Standards Board. (d) (d) License as a life insurance agent can be held by CA not for the purpose of getting renewal commission but for some other purpose that does not amount to degrading of the profession.</p>	
Incs.40.3	<p>Till what extent ordinarily, Mr. Sunil would have narrowed his range for evaluating the management's point estimate for the particular items disclosed in the balance sheet?</p>
<p>(a) To be equal to or less than materiality in order to cover all reasonable outcomes. (b) (b) To be equal to or less than performance materiality in order to cover all reasonable outcomes. (c) (c) To be equal to or less than materiality in order to cover all possible outcomes. (d) (d) To be equal to or less than performance materiality in order to cover all possible outcomes.</p>	

Incs.40.4	Whether due to amendment in audit report, its date need to be changed and what other alternative was available to Verma & Associates with respect to such amendment in financial statements?
	<p>(a) Date of audit report will be changed. Alternative available was to provide new or amended audit report by including a Key Matters paragraph.</p> <p>(b) (b) Original Date of audit report will remain unchanged and additional date will be included. Alternative available was to provide new or amended audit report by extending the Basis of opinion paragraph.</p> <p>(c) (c) Date of audit report will be changed. Alternative available was to provide new or amended audit report by including an Emphasis of Matter paragraph or Other Matter(s) paragraph.</p> <p>(d) (d) Original Date of audit report will remain unchanged and additional date will be included. Alternative available was to provide new or amended audit report by including an Emphasis of Matter paragraph or Other Matter(s) paragraph.</p>
Incs.40.5	What advise Mr. Sunil would have given for the accounting treatment of leave encashment liability?
	<p>(a) Provision should be created each time when the company makes provident fund contribution.</p> <p>(b) Provision should not be created because as and when the employees availed leave encashment, the provident fund contribution was made.</p> <p>(c) Full provision should be provided by the company for liability with respect to 12% PF on amount of leave encashment as per the actuarial valuation.</p> <p>(d) Provision should not be created as there was uncertainty that whether the employees will avail leave encashment or utilize it.</p>

Incs.41 **(N21M/S22M)**

Mr. Tushar Jalani is a CA as well as CMA, who is working as an internal auditor in Gomez Realty Ltd. on full-time employment basis. In his visiting card, he has mentioned that he is a Chartered Accountant as well as Cost Accountant. During the month of May, 2020, he was approached by the director of the company, Mr. Kunal Surpan, to write his personal books of accounts from FY 2020-21 onwards and also to file his Income Tax Return which was accepted by Mr. Tushar.

Mr. Danish Bhadra, the partner of Badhra & Co., a CA firm, was appointed as an expert, during FY 2020-21, by giving a written consent to Gomez Realty Ltd. with respect to issue of prospectus by the company whereby he provided a report on the valuation of the company and one person who had subscribed to the securities of the company alleged that he had suffered a loss because of omission of a matter in the valuation report provided in the prospectus. Mr. Danish had not withdrawn his consent at any time as an expert and he firmly believed that it was a correct and fair representation of the statement in the valuation report. The fees charged by Mr. Danish for the said assignment was on the basis % of valuation.

Vedya & Co. was appointed as the statutory auditor of Gomez Realty Ltd. from FY 2018-19 onwards for five consecutive years. However, during FY 2020-21, it did not offer itself for reappointment as an auditor of such company owing to certain professional reasons and communication with respect to the same was made to the relevant authorities.

Kesar & Associates was then appointed as the statutory auditor of Gomez Realty Ltd. for FY 2020-21 and Mr. Raj Kesar was appointed as the engagement partner for the said assignment. Brother of one of the partners of the said firm holds 18% share in Badhra & Co., since 2017, and who is also a chartered accountant by profession.

Mr. Raj decided to take direct assistance from Mr. Tushar in accordance with the procedure as prescribed in SA 610 and in that connection, he inquired about the fraud risks in the organization from him. Prior to taking such direct assistance, Mr. Raj communicated the same to the relevant authority in the company and also that he directed, supervised and reviewed the work performed by Mr. Tushar.

On the basis of the abovementioned facts, you are required to answer the following MCQs:

Incs.41.1	Whether Mr. Tushar can be held guilty under Part-I of First Schedule to the CA Act, 1949?
	<p>(a) No, as he is not a member in practice.</p> <p>(b) Yes, as per Clause (7) he can be held guilty.</p> <p>(c) No, as it is permitted for member to mention such designations in his visiting card.</p> <p>(d) No, provided he has been permitted to do so.</p>
Incs.41.2	Whether any civil liability can be imposed upon Mr. Danish?
	<p>(a) No, if he is able to prove what he is contending.</p> <p>(b) Yes, as he had not withdrawn his consent before delivery of a copy of the prospectus for registration or, to the defendant's knowledge, before allotment thereunder.</p> <p>(c) Yes, provided such omission of a matter in the valuation report was misleading in nature.</p> <p>(d) Yes, as the omission of a matter was in the valuation report prepared by the expert himself irrespective of whether the consent was withdrawn or not.</p>
Incs.41.3	Whether it was appropriate for Mr. Raj to take direct assistance from Mr. Tushar for the matter as aforesaid?
	<p>(a) No, as it tantamount to taking direct assistance of internal auditor for making significant judgments in the audit.</p> <p>(b) Yes, as inquiry is allowed to be done and having a discussion with respect to the said matter is not appropriate.</p> <p>(c) No, as it tantamount to taking direct assistance of internal auditor relating to higher assessed risks of material misstatement.</p> <p>(d) No, as it tantamount to taking direct assistance of internal auditor relating to decisions the external auditor makes in accordance with SA 610 regarding the internal audit function and the use of its work or direct assistance.</p>
Incs.41.4	In accordance with SA 610, with what Standards on Auditing, respectively, Mr. Raj would have made communication for taking direct assistance of Mr. Tushar and also directed, supervised and reviewed the work performed by him?
	<p>(a) As per SA 580 and SA 500 respectively.</p> <p>(b) As per SA 260 and SA 240 respectively.</p> <p>(c) As per SA 265 and SA 220 respectively.</p> <p>(d) As per SA 260 and SA 220 respectively.</p>
Incs.41.5	To which authorities, Vedy & Co. would have made the communication and whether there was any obligation on part of Kesar & Associates with respect to such communication made?
	<p>(a) Vedy & Co. would have made the communication to the ICAI and to the management for circulation among the shareholders of Gomez Realty Ltd. However, it was not obligatory for Kesar & Associates to obtain a copy of such communication before accepting the appointment.</p> <p>(b) Vedy & Co. would have made the communication to the ICAI only and it was obligatory for Kesar & Associates to obtain a copy of such communication before accepting the appointment.</p> <p>(c) Vedy & Co. would have made the communication to BOD of Gomez Realty Ltd. and the ICAI and it was obligatory for Kesar & Associates to obtain a copy of such communication before accepting the appointment.</p> <p>(d) Vedy & Co. would have made the communication to the ICAI only and it was obligatory for Kesar & Associates to obtain a copy of such communication before making communication with the outgoing auditor relating to its appointment.</p>
Incs.42	(N21M/S22M)
	<p>Chartered Accountant Firms - Tink & Co., Llyods & Co. and Manohar &Co., respectively, were appointed as the joint auditors for conducting the statutory audit for the financial year 2020-21 of Anitya Ltd.</p> <p>They were having difference of opinion with regards to following points:-</p>

Sr. No.	Reasons for Differences in Opinion
1	Manohar & Co. wanted to refer to the work of the auditor's expert, Mr. Tanmay in the audit report but the other joint auditors were not agreeing on the same as such reference was not relevant to an understanding in the final audit opinion and also it was not required by any statute.
2	Certain misstatements affected information to be included in 'Management Discussion and Analysis' of Anitya Ltd.'s annual report but as they were lower than materiality set for the financial statements as a whole and so according to the Llyods & Co., there was no requirement to perform any audit procedures on the same but the other joint auditors were not agreeing on the same for the reason that the information may reasonably be expected to influence the economic decisions of the users of the financial statements
3	For a selected item, the joint auditors were not able to apply the designed audit procedures or suitable alternate procedures and Llyods & Co. wanted to treat that item as a misstatement in the case of test of controls as well as in the case of test of details but the other joint auditors were not agreeing on the said treatment.
4	Manohar & Co. had determined for a particular account balance positive confirmation request was necessary to obtain sufficient and appropriate audit evidence but as it had not obtained such confirmation and alternate audit evidence would not have sufficed its requirements, Manohar & Co. wanted to determine its implications on the audit opinion but the other joint auditors were not agreeing on the same.

The differences of opinion in case of Tink & Co. and Llyods & Co. were resolved but there remained disagreement with the one of the opinions of Manohar & Co. due to which Manohar & Co. expressed its opinion in a separate audit report.

Manohar & Co. was initially appointed as a joint auditor in Anitya Ltd. for 5 years term with other two auditors but it gave its resignation as an auditor to the company on 20th October, 2021, due to the reason of having differences of opinion with other joint auditors.

Manohar & Co. filed the required statement with respect to its resignation on 27th November, 2021, with Anitya Ltd. as well as the Registrar, respectively.

The Board of Directors of Anitya Ltd. appointed Namo & Co. as a joint auditor in place of Manohar & Co. which was later approved by members in the general meeting of the company.

Namo & Co. before getting appointed, as aforesaid, had :-

(i) Communicated vide a registered post acknowledgment due to the previous joint auditor, Manohar & Co. but the said post was received back with the remarks "Office Found Locked".

(ii) Ascertained that the requirements of Section 139 and Section 140 of the Companies Act, 2013, with the respect to its appointment had been duly complied with or not by Anitya Ltd.

On the basis of the abovementioned facts, you are required to answer the following MCQs:

Incs.42.1	Whether the opinion of Manohar & Co. for referring the work of the auditor's expert, Mr. Tanmay in the audit report, can be considered as valid?
	<p>(a) No, as such reference was not relevant to an understanding in the final audit opinion and also it was not required by any law or regulation.</p> <p>(b) Yes, such a reference in the auditor's opinion was relevant to the understanding of the users of the financial statement.</p> <p>(c) No, as such reference was not required by any law or regulation.</p> <p>(d) Yes, if such reference was relevant to any 'key audit matter' as per SA 701 even though it was not required by any law or regulation.</p>

Incs.42.2	Whether the opinion of Llyods & Co. for treating the item as a misstatement in the case of test of controls as well in the case of test of details for which the joint auditors were not able to apply the designed audit procedures or suitable alternate procedures, can be considered as valid?
<p>(a) No, as such item shall be as a misstatement only in the case of test of controls and for test of details such item shall be treated as a deviation.</p> <p>(b) Yes, as such item shall be treated as a misstatement in the case of test of controls and test of details.</p> <p>(c) No, as such item shall be treated as a deviation in the case of test of controls and test of details.</p> <p>(d) No, as such item shall be treated as a misstatement only in the case of test of details and for test of controls such item shall be treated as a deviation.</p>	
Incs.42.3	Whether the insistence by Manohar & Co. for determining implications of not obtaining response to positive confirmation request on the audit opinion can be considered as valid?
<p>(a) No, because in such a case the auditor should have enquired the reasons for the same from the management in writing and included the same as a 'Key Audit Matter' as per SA 701</p> <p>(b) Yes, because in such a case the auditor should have determined implications for the audit and the auditor's opinion in accordance with SA 705.</p> <p>(c) No, because in such a case the auditor should have obtained and relied upon a written representation as per SA 580 in this regard.</p> <p>(d) No, because in such a case the auditor should have determined the need to include an 'Emphasis of matter' paragraph in the audit report as per SA 706 after considering the implications on the audit.</p>	
Incs.42.4	By what date, Manohar & Co. should have filed the statement with respect to its resignation with Anitya Ltd. as well as the Registrar and in what form?
<p>(a) Manohar & Co. should have filed the statement in Form ADT-3 by 19th November, 2021.</p> <p>(b) Manohar & Co. should have filed the statement in Form ADT-4 by 19th November, 2021.</p> <p>(c) Manohar & Co. should have filed the statement in Form ADT-2 by 19th December, 2021.</p> <p>(d) Manohar & Co. should have filed the statement in Form ADT-3 by 20th November, 2021.</p>	
Incs.42.5	Whether Namu & Co. would be considered to have satisfied the requirements of communicating with the previous auditor?
<p>(a) No, as the communication through registered post acknowledgment due could not be done, Namu & Co. should have tried an alternative form of communication as prescribed by the Council of the ICAI for the same.</p> <p>(b) Yes, as it would be deemed that such post was delivered.</p> <p>(c) No, because in such a case Namu & Co. should have informed the Council of the ICAI with respect to the non-delivery of post to the previous auditor along with the reasons for the same.</p> <p>(d) No, however, Namu & Co. can commence the audit of Anitya Ltd. but should try to satisfy the requirement of communicating with the previous auditor at least before signing of the audit report.</p>	
Incs.43	(N21M/S22M)
<p>A special resolution was passed by Dunk Ltd., an unlisted public company, for the purpose of conducting investigation into the affairs of the company by getting order of the Central Government for the same.</p> <p>The Central Government on receipt of such application from Dunk Ltd. supported by a copy of special resolution did not deem fit to pass an order for investigation and thereby, rejected such request. Thereafter, certain specified number of members of Dunk Ltd. made an application to the Tribunal for seeking investigation and the Tribunal upon being satisfied that such investigation was required, passed an order which was forwarded to the Central Government.</p> <p>On receipt of such order from the Tribunal, the Central Government passed an order for investigation into the affairs of Dunk Ltd., by appointing Mr. Rajesh as an inspector for the same, who is practicing as a chartered accountant in partnership firm named RS & Co.</p>	

Mr. Rajesh started with the investigation into the affairs of Dunk Ltd. from 03.04.2021. All books and papers of Dunk Ltd. were handed over to Mr. Rajesh from 04.04.2021. During the investigation, Mr. Rajesh considered it necessary to examine the books and papers of Blue Bell (P) Ltd., a supplier company of Dunk Ltd. while investigating on a particular matter relating to purchases of Dunk Ltd. Accordingly, Mr. Rajesh obtained the same through an officer of Dunk Ltd. On 20.04.2021. Such books and papers of Blue Bell (P) Ltd. were returned by Mr. Rajesh on 05.06.2021 but he again obtained the same on 20.06.2021 by an order in writing, due to certain reasons which were returned on 25.08.2021.

Mr. Rajesh, at the later stage of investigation, also initiated investigated into the affairs of Sinq Ltd., an unlisted public company, which was being managed 2 years ago by an ex-manager of Dunk Ltd.,

Mr. Jayesh, as he considered it necessary to do so, after obtaining required approvals. Mr. Rajesh examined on oath by summoning and enforcing attendance of following persons:-

- Mr. Jayesh
- Mr. Urvil, a director of Dunk Ltd.
- Mr. Sunny, an employee of Sinq Ltd.
- Mr. Raj, an employee of Blue Bell (P) Ltd.

The investigation, in case of the aforesaid companies i.e. Dunk Ltd. and Sinq Ltd. was concluded by Mr. Rajesh but he only forwarded the report of the results of investigation of Dunk Ltd., after authentication, to the Central Government.

On perusal of such investigation report of Dunk Ltd., the Central Government observed that revenue of Dunk Ltd. was misrepresented during FY 2019-20 as they were booking fictitious sales in anticipation of actual sales and thus, it concluded that the affairs of the company were mismanaged during the FY 2019-20 which casted a doubt on the reliability of financial statements for the said financial year and because of which it made an application to the Tribunal for the purpose of re-opening books of account of Dunk Ltd. and recasting its financial statements.

The tribunal passed an order on 12.01.2022 for re-opening books of account of Dunk Ltd. and recasting its financial statements for FY 2019-20 on the basis of aforesaid reason, after giving notice to the Central Government for the same and taking into consideration the representations made by it in this regard.

On the basis of the abovementioned facts, you are required to answer the following MCQs:

Incs.43.1	Whether it was justifiable on the part of the Central Government to reject the application of Dunk Ltd. even though it was supported by a copy of special resolution and whether RS & Co. could have been appointed as inspector instead of Mr. Rajesh, in order to have more manpower for the investigation?
	<p>(a) Yes, as the Central Government possesses discretion to reject the application received from any person if it does not deem fit for investigation and RS & Co. was eligible to be appointed as inspector.</p> <p>(b) No, the Central Government should have accepted the application as necessary formalities were complied with by Dunk Ltd. and RS & Co. was ineligible to be appointed as inspector.</p> <p>(c) Yes, as the Central Government possesses discretion to reject such an application and RS & Co. was eligible to be appointed as an inspector provided it had minimum 3 partners.</p> <p>(d) Yes, as the Central Government possesses discretion to reject such an application and RS & Co. was ineligible to be appointed as inspector.</p>
Incs.43.2	Till what time period, Mr. Rajesh was having the authority to keep in his custody, the books and papers of Dunk Ltd. And Blue Bell (P) Ltd which were obtained again?
	<p>(a) 01.10.2021 & 03.12.2021, respectively</p> <p>(b) 03.07.2021 & 03.12.2021, respectively</p> <p>(c) 01.10.2021 & 17.12.2021, respectively</p> <p>(d) 03.06.2021 & 02.12.2021, respectively</p>

Incs.43.3	For which of the following person(s), Mr. Rajesh was required to obtain prior approval of Central Government for examining them on oath by summoning and enforcing their attendance?
<p>(a) Mr. Jayesh, Mr. Sunny and Mr. Raj, respectively (b) Mr. Sunny and Mr. Raj, respectively (c) Mr. Sunny (d) Mr. Raj</p>	
Incs.43.4	Whether it was justifiable on the part of Mr. Rajesh for not forwarding the investigation report of Sinq Ltd. to the Central Government and what type of fraud had been identified by the Central Government on perusal of investigation report of Dunk Ltd.?
<p>(a) Yes, provided reasons for not forwarding the same are recorded in writing by Mr. Rajesh and the type of fraud identified is in the nature of 'Teeming and Lading', respectively. (b) No, as it is the responsibility of the inspector to forward to the Central Government, the results of investigation of all the companies done by him and the type of fraud identified is in the nature of 'Tampering of receipts', respectively. (c) No, because at the first place, Mr. Rajesh was not only having the authority to investigate into the affairs of Sinq Ltd. and the type of fraud identified is in the nature of 'Teeming and Lading', respectively. (d) Yes, if according to Mr. Rajesh such report was not relevant to the investigation of affairs of Dunk Ltd. And the type of fraud identified is in the nature of 'Advance billing', respectively.</p>	
Incs.43.5	Whether it was mandatory for the Tribunal to take into consideration the representations made by the Central Government before passing the order for re-opening of accounts and till what financial year, Tribunal can make such order of re-opening of accounts?
<p>(a) No, it was discretionary for the Tribunal to take into consideration the representations made by the Central Government and the Tribunal can make such order of re-opening of accounts till FY 2016-17. (b) No, provided reasons for the same are recorded in writing by the Tribunal for not taking into consideration the representations made by the Central Government and the Tribunal can make such order of re-opening of accounts till FY 2014-15. (c) No, it was discretionary for the Tribunal to take into consideration the representations made by the Central Government and the Tribunal can make such order of re-opening of accounts till FY 2013-14. (d) Yes, it was mandatory for the Tribunal to take into consideration the representations made by the Central Government and the Tribunal can make such order of re-opening of accounts till FY 2013-14.</p>	
Incs.44	(M22R)
<p>M/s JKL & Associates, Chartered Accountants were acting as the statutory auditors of M/s IBS Bank Limited. During the statutory audit for the relevant financial year, the following observations were made:</p> <ul style="list-style-type: none"> • Interest income included the following: <ul style="list-style-type: none"> - Rs 5 lakh relating to a short-term crop loan where instalment was overdue for one crop season. - Rs 7 lakh relating to an advance (guaranteed equally by Government of India & Government of Tamil Nadu) where the instalment was due for more than six months. • A 25 month old NPA account worth ` 43 lakh (net book value) was sold to an asset reconstruction company for ` 45 lakh. The profit from the above transaction was taken to the P&L account. The above NPA was sold 'without recourse' and at cash basis. The auditors noticed a discrepancy in this transaction and hence decided to report the same. <p>After completing the bank audit, JKL & Associates agreed to take up the following management consultancy and other services for one of the start-up company based in Noida:</p> <p>(i) Setting up executive incentive plan and wage incentive plan. (ii) Price-fixation and other management decision making. (iii) Conduct a periodical audit and advisor for tax matters.</p>	

Mr. K, one of the partners of the firm felt that providing the above services could result in professional misconduct. Hence, he resigned from the partnership and became a sole practitioner. One of the clients of JKL & associates came to know about the issue and they approached Mr. K to conduct the statutory audit for the financial year. Mr. K took up the assignment without informing the previous firm. Annoyed by this, Mr. J filed a complaint to ICAI regarding the act of Mr. K. After enquiry, it was decided that Mr. K was guilty of professional misconduct.

After this incident, Mr. K also decided to file a complaint against Mr. J. When he was thinking about a reason for the same, he remembered that Mr. J had entered into an agreement with two of his articled clerks to pay stipend on an annual basis, while others were paid on monthly basis. Realising that this act is in violation of Regulation 48 of the Act, he filed a complaint to ICAI. After enquiry, it was found that Mr. J was guilty of professional misconduct.

On the basis of the abovementioned facts, you are required to choose the most appropriate answer for the following MCQs:

Incs.44.1	From the above facts and details, what is the correct amount of interest which the bank should account in its financial statements?
	<p>(a) Nil.</p> <p>(b) Rs 8.5 lakh.</p> <p>(c) Rs 5 lakh.</p> <p>(d) Rs 3.5 lakh.</p>
Incs.44.2	<p>What could be the possible amount classified as NPA relating to the accounts with respect to observation regarding the inclusion of interest income given below:</p> <p>- Rs 5 lakh relating to a short-term crop loan where instalment was overdue for one crop season.</p> <p>- Rs 7 lakh relating to an advance (guaranteed equally by Government of India & Government of Tamil Nadu) where the instalment was due for more than six months.</p>
	<p>(a) Rs 12 lakh.</p> <p>(b) Rs 8.5 lakh.</p> <p>(c) Rs 7 lakh</p> <p>(d) Rs 3.5 lakh</p>
Incs.44.3	In NPA, sale to asset reconstruction company, what discrepancy auditor might have noticed:
	<p>(a) The NPA had not completed 30 months.</p> <p>(b) Sale was made 'without recourse'.</p> <p>(c) Sale was made for cash basis.</p> <p>(d) The profit of ` 2 lakh was taken to P&L account</p>
Incs.44.4	Being guilty of professional misconduct, which of the following punishment Mr. K will be subject to:
	<p>(a) Removal of his name from members register for a period of 6 months.</p> <p>(b) Impose a penalty of ` 1000.</p> <p>(c) Removal of his name from members register up-to a period it thinks fit.</p> <p>(d) Impose a penalty up-to ` 2 lakh.</p>
Incs.44.5	Being guilty of professional misconduct, which among the following punishment Mr. J will be subject to?
	<p>(a) Impose a penalty up-to ` 1 lakh.</p> <p>(b) Remove his name from members register permanently.</p> <p>(c) Impose a penalty up-to ` 3 lakh.</p> <p>(d) Impose a penalty of ` 6 lakh.</p>

Incs.45	(M22M)
<p>Mr. Sunil Verma is conducting the statutory audit of Upshaant Ltd., an unlisted public company, for F.Y. 2020-21 as an engagement partner on behalf of Verma & Associates having six partners out of which four are chartered accountants and two are advocates. This was the third consecutive year of audit by the said audit firm of Upshaant Ltd. For current year's audit, a new audit engagement letter was sent by the audit firm to the company.</p> <p>Upshaant Ltd. changed its employee remuneration policy from 1st April, 2020, to provide for 12% contribution to provident fund on leave encashment also. As per the leave encashment policy, the employees can either utilize or encash it. As at 31st March, 2021, the company obtained an actuarial valuation for leave encashment liability. As and when the employees availed leave encashment, the provident fund contribution was made. The company was not sure whether the employees will avail leave encashment or utilize it and obtained consultancy of Mr. Sunil for the correct accounting treatment to be given as per the relevant IND-AS applicable.</p> <p>Because of the inherent consistency of IT processing, Mr. Sunil did not consider it necessary to increase the extent of testing of a relevant control in inventory handling and maintenance system of the company. Further, for this year's audit, Mr. Sunil observed that controls over sales order processing have been weakened due to change in hierarchy of organization which he also discussed with the management of the company through a letter of weakness.</p> <p>Mr. Sunil, based on the audit evidence available, narrowed his range for the purpose of evaluating the management's point estimate on particular items which required accounting estimates to be made as disclosed in the balance sheet of the company.</p> <p>The financial statements of Upshaant Ltd. for F.Y. 2020-21 was required to be amended due to occurrence of subsequent events after the balance sheet date because of which the audit report was also amended by Verma & Associates which indicated that the auditor's procedures on subsequent events were restricted solely to the amendment of the financial statements described in the relevant note to the financial statements.</p> <p>Apart from receiving his remuneration as a partner in Verma & Associates, Mr. Sunil also received a sum of Rs. 90,000 as renewal commission on the Life Insurance Agency License held by him for the said purpose. On the basis of the abovementioned facts, you are required to answer the following MCQs:</p>	
Incs.45.1	<p>For what type of control in inventory handling and maintenance system, Mr. Sunil would have not considered it necessary to increase the extent of testing?</p>
<p>(a) Application control (b) Automated control (c) Process Level control (d) Entity Level control</p>	
Incs.45.2	<p>Whether Mr. Sunil is permitted to hold license as a life insurance agent?</p>
<p>(a) Yes, general permission has been granted by the Council of the ICAI for the said purpose. (b) Yes, if specific permission has been obtained by Mr. Sunil for the same. (c) No, it is not permitted for a chartered accountant to do so as per recent Decisions of Ethical Standards Board. (d) License as a life insurance agent can be held by CA not for the purpose of getting renewal commission but for some other purpose that does not amount to degrading of the profession</p>	
Incs.45.3	<p>Till what extent ordinarily, Mr. Sunil would have narrowed his range for evaluating the management's point estimate for the particular items disclosed in the balance sheet?</p>
<p>(a) To be equal to or less than materiality to cover all reasonable outcomes. (b) To be equal to or less than performance materiality in order to cover all reasonable outcomes. (c) To be equal to or less than materiality to cover all possible outcomes. (d) To be equal to or less than performance materiality in order to cover all possible outcomes</p>	

Incs.45.4	Whether due to amendment in audit report, its date need to be changed and what other alternative was available to Verma & Associates with respect to such amendment in financial statements?
	<p>(a) Date of audit report will be changed. Alternative available was to provide new or amended audit report by including a Key Matters paragraph.</p> <p>(b) Original Date of audit report will remain unchanged and additional date will be included. Alternative available was to provide new or amended audit report by extending the Basis of opinion paragraph.</p> <p>(c) Date of audit report will be changed. Alternative available was to provide new or amended audit report by including an Emphasis of Matter paragraph or Other Matter(s) paragraph.</p> <p>(d) Original Date of audit report will remain unchanged and additional date will be included. Alternative available was to provide new or amended audit report by including an Emphasis of Matter paragraph or Other Matter(s) paragraph.</p>
Incs.45.5	What advise Mr. Sunil would have given for the accounting treatment of leave encashment liability?
	<p>(a) Provision should be created each time when the company makes provident fund contribution.</p> <p>(b) Provision should not be created because as and when the employees availed leave encashment, the provident fund contribution was made.</p> <p>(c) Full provision should be provided by the company for liability with respect to 12% PF on amount of leave encashment as per the actuarial valuation.</p> <p>(d) Provision should not be created as there was uncertainty that whether the employees will avail leave encashment or utilize it.</p>

Note: Since Incs.46 was same as Incs.41, we have deleted Incs.46

Incs.47	M22M
	<p>M/s Head Limited, had recently issued right shares for all the existing shareholders. The total proceeds collected amounted to ` 200 crore, out of which 50 % was planned to be used for construction of a new factory next to the existing one and the balance was to be used for working capital purpose. However, due to the Covid-19 pandemic, the proposed factory work was affected and hence the company decided to park 9% of the specific fund in a debt mutual fund instead of keeping it idle. Similarly, the company decided to park 11% of the working capital fund in government securities.</p> <p>M/s Legs Limited, an unlisted associate entity of Head Limited had similarly raised funds through qualified institutional placement & used the funds fully for the specified purpose. The auditor of the Legs Limited (Mr. G, partner of M/s GK & Associates) and the auditor of Head Limited (Mr. Q, partner of M/s CYQ & Associates) suggested that they shall mandatorily disclose the details of utilization of funds, as per SEBI LODR Regulation 32.</p> <p>However, Mr. C, one of the partners of M/s CYQ & Associates argued that there is no need to report the above matter under SEBI LODR Regulations, but the same shall be reported under CARO 2020. Mr. Q argued that the matter need not be reported under CARO 2020. This argument had spoiled the relationship between the two partners, as a result of which, Mr. C decided to quit from the partnership and started his own practice.</p> <p>Mr. C then decided to induct Mr. J, a newly qualified Chartered Accountant as a partner in his firm. After this, the firm got an audit assignment from M/s Bank Limited. Mr. C consulted with his partner whether to accept the offer. Mr. J told that he has a loan (amounting to 75% of FD) against fixed deposit (of `6.8 lakh) in the said bank and feared that they cannot accept the offer. However, Mr. C told that since the loan is against fixed deposit there is no problem in taking up the offer, but he didn't want to force Mr. J in giving his acceptance. Therefore, the offer was dropped.</p> <p>Few months later, Mr. C passed away and the whole firm was managed by his partner Mr. J. The legal representative of Mr. C (Mrs. C) quoted the partnership agreement clause regarding the right of legal</p>

<p>representative of the deceased partner to receive share of profit from the firm and requested for such share of profit. However, Mr. J informed that there is no such provision as per the Chartered Accountants Act and denied to share any profits/ revenue from the firm. Agitated by the decision of Mr. J, Mrs. C filed a complaint with the Institute of Chartered Accountants of India against Mr. J. On the basis of the abovementioned facts, you are required to answer the following MCQs:</p>	
Incs.47.1	<p>Is the advice of Mr. Q correct in case of Head Limited? If yes what are the details which need to be disclosed by the company?</p>
<p>(a) Yes. The company shall indicate the deviations in use of proceeds and category wise variation between projected utilization and actual utilization. (b) No. There is no need to indicate the statement since such deviations were due to Covid-19 pandemic. (c) Yes. The company shall indicate the deviations in use of proceeds in form of an explanatory statement. (d) Yes. The company shall indicate the % of deviation if such deviation is more than 10% of the total funds allotted for the specified purpose. Hence, the company shall indicate only the deviation in utilization funds allocated for working capital purpose</p>	
Incs.47.2	<p>In case if Head Limited is to report the deviation in use of funds, at what interval should it report the same?</p>
<p>(a) Disclose it every year in its Annual Report (b) Biannual reporting (c) Every quarter (d) Monthly reporting, till the funds are fully utilised.</p>	
Incs.47.3	<p>Assuming yourself as the auditor of Head Limited, what would be your stand on reporting the deviation in utilization of funds under CARO 2020?</p>
<p>(a) There is no need to report the matter under CARO, since such deviations were due to Covid -19 pandemic. (b) The matter should be reported under CARO, under clause (xi)(a) (c) The matter should be reported under CARO, under clause (x) (d) The matter should be reported under CARO, under clause (xvi)(b)</p>	
Incs.47.4	<p>In the above case, is the act of Mr. J to deny share of profits to legal representative of Mr. C right? What is the relevant provision of the Chartered Accountants Act which you need to refer in this case?</p>
<p>(a) Mr. J has no right to deny the share of profit since it is given in the partnership agreement. The relevant provision to be considered here is Clause 2 of Part I of First Schedule of Chartered Accountants Act. (b) Mr. J has all right to deny the share of profit since it shall lead to professional misconduct. The relevant provision to be considered here is clause 2 of Part I of First Schedule of Chartered Accountants Act. (c) Mr. J has no right to deny the share of profit since it is given in the partnership agreement. The relevant provision to be considered here is Clause 4 of Part I of First Schedule of Chartered Accountants Act. (d) Mr. J is correct in denying the share of profit. Though the same is mentioned in the agreement, it is against the provisions of Chartered Accountants Act. The relevant provision to be considered here is Clause 1 of Part II of Second Schedule.</p>	
Incs.47.5	<p>Had the firm accepted the audit assignment of Bank Limited, would it have led to invalid appointment as per the Companies Act, 2013? If yes, under what provision?</p>
<p>(a) No. As explained by Mr. C, since the loan was against a fixed deposit (loan against a collateral) appoint of the firm would not be void had they accepted the offer. (b) Yes. The acceptance of the offer would have led to invalid appointment of the firm as per the section 141(3)(d)(ii) of the Companies Act, 2013. (c) Yes. The acceptance of the offer would have led to invalid appointment of the firm as per the section 141(3)(d)(iii) of the Companies Act, 2013.</p>	

	(d) Yes. The acceptance of the offer would have led to professional to invalid appointment of the firm as per the section 141(3)(c)(ii) of the Companies Act, 2013.
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Incs.48	M22M
<p>M/s Audit & Co. were appointed as internal auditors of M/s Manufacturing Limited, whose shares were held by Mr. F, Mrs. F, Mr. S & Ms. D in equal proportion.</p> <p>CA Senior and his articled assistant Mr. Junior were a part of the team which was looking after the above assignment. As a part of the work, Mr. Junior was required to take care of the P2P internal controls established to ensure the three-way match is properly functioning. Being new to internal audit, he asked from help from a fellow team member regarding the above matter.</p> <p>After completion of the audit, the firm submitted its report directly to the Board of Directors of the company. A copy of the same was also sent to the company's statutory auditors. The report had clearly mentioned that the existing internal audit system in the company was not commensurate with its size and nature of business.</p> <p>Following this, the company offered the assignment of Tax Audit to M/s Audit & Co. itself. All the partners were happy to accept the offer, except CA New, an ex-articled assistant and newly inducted partner of the firm. He was of the opinion that if the above offer was accepted, it would lead to professional misconduct under the Chartered Accountants Act. However, despite his advice, the firm went on to accept the offer.</p> <p>After the above incident, CA New resigned from the firm and started his own practice as a sole proprietor. Few days after the resignation of CA New, the following things happened:</p> <p>(i) M/s Audit & Co. had advertised the changes in partnership of the firm, by limiting the ad to a bare statement of facts and consideration given to the appropriateness of the area of distribution of c the magazine.</p> <p>(ii) CA New issued a classified advertisement in the newsletter of the Institute, for seeking partnership. The ad contained his name, phone number and addresses of Social Networking sites.</p> <p>On the basis of the abovementioned facts, you are required to answer the following MCQs:</p>	
Incs.48.1	<p>Assuming yourself to be a fellow team member of Mr. Junior, explain him what is a three-way match internal control involved in P2P process</p> <p>(a) Matching of Purchase order, Sales order & Invoice raised to ensure all ordered quantity of intended goods have been invoiced and proper control over quantity of inventory is maintained.</p> <p>(b) Matching of Sales order, Goods delivery note & invoice to ensure all ordered quantity of intended goods have been delivered and invoiced accordingly.</p> <p>(c) Matching of Sales order, Invoice & Payment receipt details to ensure all ordered quantity of intended goods have been invoiced and payment for the same is received.</p> <p>(d) Matching of Purchase order, Goods receipt note & invoice to ensure all ordered quantity of intended goods have been received and invoiced accordingly.</p>
Incs.48.2	<p>Assuming yourself to be the statutory auditors of the company, would you need to mention about the details in the internal audit under CARO 2020? If yes, under what clause should it be mentioned?</p> <p>(a) The above matter should be reported under clause (xiv) of CARO 2020</p> <p>(b) The above matter need not be reported under CARO, but it shall be reported under Emphasis of Matter Paragraph as per SA 706.</p> <p>(c) The above matter should be reported under clause (xviii) of CARO 2020</p> <p>(d) The above matter should be reported under clause (xv) of CARO 2020</p>

Incs.48.3	From the above information that M/s Manufacturing Limited appointed an internal auditor, what could you infer about their Paid-up share capital, outstanding deposit & turnover?
	<p>(a) Paid up share capital of ≥ 40 crore Outstanding deposits > 20 crore; Turnover ≥ 190 crore</p> <p>(b) Paid up share capital of ≥ 25 crore Outstanding deposits ≥ 25 crore; Turnover ≥ 100 crore</p> <p>(c) Paid up share capital of ≥ 50 crore Outstanding deposits ≥ 25 crore; Turnover ≥ 200 crore</p> <p>(d) Paid up share capital of ≥ 45 crore Outstanding deposits ≥ 15 crore; Turnover > 100 crore</p>
Incs.48.4	Will accepting the Tax Audit offer lead to professional misconduct? If yes, as per which clause?
	<p>(a) No. There will be no professional misconduct on the firm, if it accepts the offer.</p> <p>(b) Yes. By accepting the offer, the firm will be guilty of professional misconduct as per clause 4 of Part I of Second Schedule read along with Council Guidelines.</p> <p>(c) Yes. By accepting the offer, the firm will be guilty of professional misconduct as per clause 12 of Part I of First Schedule.</p> <p>(d) Yes. By accepting the offer, the firm will be guilty of professional misconduct as per clause 2 of Part I of Second Schedule read along with Council guidelines.</p>
Incs.48.5	<p>Comment on following incidents (i) & (ii) discussed in the scenario from the perspective of Professional Ethics as per the Chartered Accountants Act.</p> <p>(i) M/s Audit & Co. had advertised the changes in partnership of the firm, by limiting the ad to a bare statement of facts and consideration given to the appropriateness of the area of distribution of the magazine.</p> <p>(ii) CA New issued a classified advertisement in the newsletter of the Institute, for seeking partnership. The ad contained his name, phone number and addresses of Social Networking sites.</p>
	<p>(a) Incident (ii) makes CA New guilty of professional misconduct, since he is advertising for seeking partnership.</p> <p>(b) Neither of the incidents violate any provisions of Chartered Accountants Act. Hence, there is no professional misconduct.</p> <p>(c) Incident (i) makes M/s Audit & Co. firm guilty of professional misconduct, as the advertisement is published in newspaper other than that issued by the Institute.</p> <p>(d) Incident (ii) makes CA New guilty of professional misconduct, since he has provided the addresses of his social networking sites.</p>

Incs.49	M22M																																		
	<p>While preparing the financial statement for the year ended on 31 March 2022, ABC Limited, a listed entity, provided the below information:</p> <p style="text-align: center;">Excerpt of Standalone Balance sheet of ABC Ltd as of 31 March 2022</p> <p style="text-align: right;">(in Lakhs)</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="background-color: #e0e0e0;">Particulars</th> <th style="background-color: #e0e0e0;">Note No</th> <th style="background-color: #e0e0e0;">As on 31.03.2022</th> <th style="background-color: #e0e0e0;">As on 31.03.2021</th> </tr> </thead> <tbody> <tr> <td style="background-color: #e0e0e0;">Equity and Liabilities</td> <td></td> <td></td> <td></td> </tr> <tr> <td style="background-color: #e0e0e0;">Current liabilities</td> <td></td> <td></td> <td></td> </tr> <tr> <td style="background-color: #e0e0e0;">(a) Financial Liabilities</td> <td></td> <td></td> <td></td> </tr> <tr> <td style="background-color: #e0e0e0;"> (ii) Trade Payables: -</td> <td style="text-align: center;">10</td> <td></td> <td></td> </tr> <tr> <td style="background-color: #e0e0e0;"> (A) Total outstanding dues of micro enterprises and small enterprises and</td> <td></td> <td style="text-align: right;">300</td> <td></td> </tr> <tr> <td style="background-color: #e0e0e0;"> (B) total outstanding dues of creditors other than micro enterprises and small enterprises.</td> <td></td> <td style="text-align: right;">210</td> <td></td> </tr> <tr> <td style="background-color: #e0e0e0;"> (iii) Other financial liabilities (other than those specified in item (c))</td> <td></td> <td></td> <td></td> </tr> </tbody> </table>			Particulars	Note No	As on 31.03.2022	As on 31.03.2021	Equity and Liabilities				Current liabilities				(a) Financial Liabilities				(ii) Trade Payables: -	10			(A) Total outstanding dues of micro enterprises and small enterprises and		300		(B) total outstanding dues of creditors other than micro enterprises and small enterprises.		210		(iii) Other financial liabilities (other than those specified in item (c))			
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Note 10: Ageing of Trade Payables

Particulars	Ageing of Trade Payables (in Lakhs)					
	Ageing	Less than 3 Year	3-5 Years	More than 5 Years	Total Non-MSME Trade Payables	MSME Trade Payables
Undisputed	100	50	30	180	160	340
Disputed	10	20	0	30	40	70
Total	110	70	30	210	200	410

Additional Information:

1. Mr. A while performing the statutory audit of ABC Ltd identified that the total trade payables reported in

the Balance Sheet as of 31 March 2022 and the amount reported in Note 10: Ageing of Trade Payables are different. Upon inquiry, management informed that the difference between both amounts is the Intercompany Trade Payables which is eliminated as part of consolidation Adjustment. Hence, there was no requirement to show intercompany Trade Payables in the ageing schedule. Mr. A accepted the explanation and did not perform any further procedures to validate the explanation.

2. When Audit Committee inquired with Mr. A as to how they have verified and validated the segregation

of the trade payables, Mr. A replied that they purely relied upon the management representation as there

was no alternate procedure available to gather sufficient and appropriate audit evidence to validate the said information. Moreover, they informed the management that they have not qualified their audit opinion as they have relied in true faith upon management representation.

3. While performing the audit procedure to validate the Trade Payables ageing, Mr. A identified that management has calculated the due date of trade payables from the end of 180 days from the date of transaction. Mr. A found it appropriate based on the conservative approach.

4. Mr. A did not qualify his audit opinion on the financial statement prepared for the period ending on 31 March 2022 on any grounds. Also, Mr. A specified that :

“The financial statements for the year ended on 31 March 2022 give a true and fair view of the state of affairs of the company, comply with the accounting standards notified under section 133 and are in the form provided for the company in Schedule III of the Act

5. While preparing the audit report Mr. A, provided the following information in Key Audit Matters.

Key Audit Matters	How our audit addressed KAM
<p>While auditing the Trade Payables, the auditor identified that the trade payables balance includes 100 lakh payable to the intercompany which is aged more than 3 years.</p> <p>Upon Inquiry with management, it was identified the same amount is not paid on account of a dispute with respect to commercial terms.</p> <p>However, no such amount was outstanding as receivable in the accounts statement shared by Intercompany. The amount was already written off by such an Intercompany in past years</p>	<p>We have relied upon the assessment performed by the management with respect to the litigation and disputed Trade Payables Balance.</p> <p>Moreover, the amount is not material and hence no further procedure other than obtaining management representation was performed on the said balance.</p>

6. Other than the disputed trade payables disclosed, there were claims against the company which were not yet acknowledged as debt. The aggregate amount and exposure for such claims were ` 25 Lakh.

As per an expert hired by the management, no amount is required to be provided in books of accounts as in all the claims there are high chances that the decision will be in favour of the company.

7. Following were the materiality levels decided by the auditor for the current period's audit :

- Overall Materiality: ` 50 Lakh;
- Performance Materiality: 5 Lakh;
- Materiality for Aggregate Uncorrected Misstatement: ` 1 Lakh.

On the basis of the abovementioned facts, you are required to answer the following MCQs:

Incs.49.1	In the given situation whether Mr. A will be held guilty of professional Misconduct
	<p>(a) Yes, Mr. A, is guilty of professional misconduct under Clause 7 of Part I of First Schedule.</p> <p>(b) Yes, Mr. A, is guilty of professional misconduct under Clause 7 & 8 of Part I of First Schedule.</p> <p>(c) Yes, Mr. A, is guilty of professional misconduct under Clause 7 & 8 of Part I of the Second Schedule.</p> <p>(d) No, Mr. A is not guilty of professional misconduct as he has performed all the audit procedures appropriately.</p>
Incs.49.2	Whether Financial statements given in the scenario are in confirmation with the requirements of Division II of Schedule III?
	<p>(a) Yes, the financial statements are in confirmation with requirements mentioned in Division II of Schedule III</p> <p>(b) No, management should have eliminated the Intercompany Trade Payables balance from the amount disclosed in the Standalone Balance Sheet. This will bring Note 10: Ageing Schedule and Standalone Balance Sheet in alignment.</p> <p>(c) No, Management should not have disclosed the disputed trade payables less than 3 years as these trade payables are still under the period of limitation as per Limitation Act and they should not be disclosed in Financial Statement.</p> <p>(d) No, management should have added the Intercompany Trade Payables balance to the ageing schedule. This will bring Note 10: Ageing Schedule and Standalone Balance Sheet in alignment.</p>
Incs.49.3	In continuation to MCQ no 12, what is an appropriate way to report the above-mentioned issues?
	<p>(a) Mr. A should have expressed a modified opinion if he was not able to gather appropriate & sufficient audit evidence to validate the disputed trade payables. Moreover, he should have modified or issued an adverse opinion as Financial Statements were not in confirmation with requirements of Division II of Schedule III.</p> <p>(b) Mr. A should have expressed an unmodified opinion if he was not able to gather appropriate & sufficient audit evidence to validate the intercompany trade payables. Moreover, he should have been unmodified as Financial Statements were not in confirmation with requirements of Division II of Schedule III.</p> <p>(c) Mr. A should have expressed an unmodified opinion as per SA 700, as he was able to obtain all the explanation and information required and sought by him. Moreover, he should have modified it as the Cash Flow Statement was not in confirmation with the requirements of Division II of Schedule III.</p> <p>(d) Mr. A should have reported matters related to Trade Payables Ageing as a qualification in Key Audit Matters, as he was not able to obtain all the explanation and information required and sought by him.</p>
Incs.49.4	Whether the reporting performed by Mr. A related to intercompany trade payables under the paragraph/section of Key Audit Matter in the audit report appropriate? Select from the below option to support your answer
	<p>(a) Mr. A should have expressed an unmodified opinion if he was not able to gather appropriate & sufficient audit evidence to validate the disputed intercompany trade payables. As per SA 701, those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period are Key Audit Matters. The auditor shall not communicate a matter in the Key Audit Matters section of the auditor's report when the auditor would be required to modify the opinion in accordance with SA 705 (Revised) as a result of the matter.</p> <p>(b) Mr. A should have expressed a modified opinion if he was not able to gather appropriate & sufficient audit evidence to validate the disputed intercompany trade payables. As per SA 701, those matter that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period are Key Audit Matters. The auditor shall not communicate a matter in the Key Audit Matters section of the auditor's report when the auditor would be required to modify the opinion in accordance with SA 705 (Revised) as a result of the matter.</p> <p>(c) Mr. A should have expressed an unmodified opinion if he was not able to gather appropriate & sufficient audit evidence to validate the disputed intercompany trade payable s. As per SA 701, the</p>

	<p>auditor shall report the matter in Key Audit Matters in the auditor's report when the auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement or the auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement.</p> <p>(d) The auditor shall express an adverse opinion and report the said matter in Key Audit Matter Paragraph when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements. In the current case, the auditor has appropriately disclosed the said matter in Key Audit Matter Paragraph.</p>
Incs.49.5	<p>As per the expert appointed by the Auditor, the exposure for the company can be ` 20 lacs as in past similar cases, the judgement was delivered against the company. However, the management of ABC Limited was of the view that when management has already hired an expert, then there is no need to hire another expert by the auditor. Seeking your advice, kindly guide the auditor by selecting the below option, and what next steps should perform.</p> <p>(a) The auditor shall design and perform audit procedures in order to identify litigation and claims involving the entity which may give rise to a risk of material misstatement. Also, if expertise in a field other than accounting or auditing is necessary to obtain sufficient appropriate audit evidence, the auditor shall determine whether to use the work of an auditor's expert. Hence auditor can appoint his expert to validate the assumption and estimate performed by the management's expert.</p> <p>(b) The auditor shall rely upon the work performed by the management's expert. Management expert will be equivalent to the auditor's expert and hence no other expert is required to be appointed.</p> <p>(c) The auditor shall not rely upon the management's expert unless he evaluates the adequacy of the expert's work for the auditor's purposes, including the relevance and reasonableness of that expert's findings or conclusions, and their consistency with other audit evidence. Although in the current case, there is no consonance between the management's expert's findings and other audit evidence, the auditor is still required to rely upon the findings of the management's expert.</p> <p>(d) The auditor shall rely upon the management's expert without evaluating the adequacy of the expert's work for the auditor's purposes, including the relevance and reasonableness of that expert's findings or conclusions, and their consistency with other audit evidence. Hence auditor is required to rely upon the findings of management's expert in the current case.</p>
Incs.50	<p style="text-align: right;">M22M</p> <p>HF Limited – ND, a Non-Banking financial company which is exclusively into housing finance business completed one month of operations. They approached their auditor M/s UVW & Co. Chartered Accountants to know about the process to apply for certificate of registration under section 45 IA of RBI Act. After calculating the net owned funds (which stood at ` 249 lakh) and considering other details, the company was told that they need not apply for the certificate.</p> <p>After the completion of the financial year, UVW & Co. started the statutory audit and tax audit for HF limited.</p> <p>During the course of the audit, the management disagreed on the following matters:</p> <p>(I) The company had revalued a particular class of its asset (no intangible asset was revalued). The carrying value before revaluation was ` 77 lakh and the value post revaluation was ` 84.70 lakh. The auditors wanted to mention the same along with the amount of change in CARO.</p> <p>(II) It was found that an amount of ` 5 lakh had been written off as bad debts. The complete amount was not admissible as per the Income tax Act and hence the auditor decided to mention about the same under clause 19 of the tax audit report and disallow the inadmissible amount.</p> <p>MC Limited approached UVW & Co. for providing few management and consultancy services for their company. The offers given by the company was:</p> <p>(i) Inventory management, material handling & storage</p> <p>(ii) Personnel recruitment and selection</p> <p>(iii) Tax representation and advice concerning tax matters</p> <p>Mr. U, the senior partner of the firm was not consulted while deciding to respond to the above offers made by MC Limited. Hence, he resigned from the partnership and went into practice as a sole proprietor. Since Mr. U was having an interest in the field of merchant banking, he applied and obtained a registration as category IV merchant banker under SEBI's Rules and Regulations. Upon obtaining the</p>

<p>same, he was approached by HF limited, who wanted to go for a capital issue. Mr. U accepted the offer. The offer document and advertisements regarding the capital issue prominently displayed the name and address of Mr. U, under the caption 'Advisor to the Issue'. It was later found that Mr. U was guilty of professional misconduct because of the above incident.</p> <p>On the basis of the abovementioned facts, you are required to answer the following MCQs:</p>	
Incs.50.1	<p>Why the auditor advised HF Limited – ND, a Non-Banking financial company not to apply for certificate under section 45 IA ?</p> <p>(a) Since the company is Non-Deposit taking NBFC, there is no need to apply for certificate of registration. (b) The company needs to completed one year of operations before applying for the certificate. (c) Net owned funds are below the stipulated limit of ` 250 lakh, hence the company need not apply for certificate. (d) The company falls under exempt category as notified by RBI.</p>
Incs.50.2	<p>Is the auditor's decision to report issue I given in the situation correct? What is the reason?</p> <p>(a) Yes. Since the revaluation of asset has brought a change of 10% in the carrying amount, the same shall be reported in CARO, including the amount. (b) No. The reporting requirement under CARO relates to physical verification of assets, record maintenance, etc. only. It does not require the details of revaluation to be provided. (c) No. Since no intangible asset is revalued, the above matter need not be reported. (d) No. Since the revaluation of asset has not reduced the carrying value, the same need not be reported.</p>
Incs.50.3	<p>Assuming yourself to be a part of the management, how would you respond to point II relating to reporting of written off Bad debts in Tax Audit Report ?</p> <p>(a) Completely agree with the above matter as told by the auditor. (b) Disagree to the point, since the above details need not be reported under clause 19 of Form 3CD. (c) Disagree to the point, since the above details need not be reported under clause 19 of Form 3CD, but under clause 25 of Form 3CD. (d) Partially agree with respect to reporting the same, but not with respect to the amount being disallowed by the auditor.</p>
Incs.50.4	<p>Assuming all responsibilities & protocols being fulfilled properly, from the above case scenario, what can you infer about the appointment of M/s UVW & Co. as auditors for HF limited?</p> <p>(a) They were appointed by Shareholders. (b) They were appointed by Empanelment Committee. (c) They were appointed by Board of Directors. (d) They were re-app</p>
Incs.50.5	<p>In the above case of Mr. U, which act of his could have led to professional misconduct?</p> <p>(a) Obtaining registration as category IV merchant banker. (b) Allowing the caption 'Advisor to the Issue' in the offer document and advertisement. (c) Accepting the offer of HF limited without communicating the same to their auditors. (d) Allowing his name and address to be displayed prominently in the offer document and advertisement.</p>
Incs.51	N22R
<p>Mr. K is a practicing-chartered accountant and also member of CPA Ireland. He handles only GST related work and tax audits for clients. Currently, he is having 19 companies for which he is handling the tax audit. At the beginning of the current Financial Year, he was approached by 40 new clients for tax audit assignments. He was reluctant to accept all the work as he feared breaching the permissible limit of handling clients. After consulting several friends of his, he finally decided to accept the work of just 2 big clients who approached him.</p>	

Mr. J, (K's friend) a chartered accountant in practice and a member empanelled as insolvency professional was acting as the statutory auditor for a listed entity. The audit for the current Financial Year was completed but there was some difference of opinion between auditor and the management. As a result of this, the company did not send the notice for AGM to Mr. J. When enquired, it was said that the company is not obliged to send notices to the auditor and it's the responsibility of the auditor to be aware of the AGM. Having heard this, Mr. J went to his friend to clarify the above matter. As a result of this incident, the management had not paid a part of the agreed audit fees to Mr. J. In retaliation, Mr. J took lien over few documents pertaining to the company. Having come to know about this, Mr. K immediately informed his friend that his act would lead to professional misconduct.

Mr. K & his friend Mr. J decided to start a partnership firm. They completed all formalities and went ahead and printed their visiting card as follows:

M/s KJ & Associates	M/s KJ & Associates
Mr. K, Chartered Accountant, CPA Ireland Partner	Mr. J, Chartered Accountant, Insolvency Professional Partner
No.3, MMM Street, Delhi Phone: 9xxxxxxx0	No.3, MMM Street, Delhi Phone: 9xxxxxxx0

The firm had also received the following assignments:

(i) Concurrent audit for T Bank Ltd.

(ii) Statutory audit for BBT Bank Ltd. (it is to be noted that the bank was not sponsored by T Bank)

(iii) Offer to act as settlor of ZZ Charitable Trust

(iv) Internal audit of PF Trust of Government Company Ltd.

(v) Statutory Auditor of Government Company Ltd.

On the basis of the abovementioned facts, you are required to choose the most appropriate answer for the following MCQs:

Incs.51.1 In the given case scenario, has Mr. K breached the maximum limit of clients. If yes, can he be held guilty of professional misconduct?

(a) Yes. The ceiling on number of tax audits which can be accepted by a chartered accountant is 20. In this given case, Mr. K is already having 19 clients and has now accepted 2 more (19+2=21). Also, he shall be held guilty of professional misconduct as per the Chartered Accountants Act, 1949.

(b) Yes. The ceiling on number of tax audits which can be accepted by a chartered accountant is 20. In this given case, Mr. K is already having 19 clients and has now accepted 2 more (19+2=21). However, this shall not be considered as guilty of professional misconduct as per the Chartered Accountants Act, 1949.

(c) No. In the above case, the maximum ceiling is 25 in number (as per the latest decision taken by the ICAI council). The assignments (existing + new) handled by Mr. K is well below the prescribed limit and hence there is no breach.

(d) No. In the above case, the maximum ceiling is 60 in number. The assignments (existing + new) handled by Mr. K is well below the prescribed limit and hence there is no breach.

Incs.51.2 Assuming yourself to be Mr. K, what would be your advice to Mr. J on the above matter?

(a) The company has not followed the provisions of section 146 of Companies Act, 2013. All notices of, and other communications relating to, any general meeting shall be forwarded to the auditor of the company. Also, as per section 147, the company shall be punishable with fine which shall not be less than ` 25,000/- but which may extend to ` 5 lakh.

(b) The company has not followed the provisions of section 146 of Companies Act, 2013. All notices of, and other communications relating to, any general meeting shall be forwarded to the auditor of the company. Also, as per section 147, the company shall be punishable with fine which shall not be less than ` 10,000/- but which may extend to ` 1 lakh

(c) The company has not followed the provisions of section 147 of Companies Act, 2013. All notices of, and other communications relating to, any general meeting shall be forwarded to the auditor of the company. However, the company shall not be punishable for this act.

	<p>(d) The argument of the management is right. The Companies Act, 2013 does not mandate that the company shall send the notices for its general meetings to the auditor. It is the responsibility of the auditor (in this case Mr. J) to attend the AGM irrespective of getting the notice for it or not. The auditor shall be punishable under the provisions of the Act if he doesn't attend the AGM</p>
Incs.51.3	<p>Will the retaliating act of Mr. J against the company make him guilty of professional misconduct?</p> <p>(a) No. The above act will not lead to professional misconduct. However, under section 147 of the Companies Act, 2013, Mr. J shall be punishable for exercising lien over the company's documents. (b) No. The Chartered Accountants Act, 1949 is silent about the above situation and hence it will not lead to professional misconduct. (c) Yes. As per the recent decision of Ethical Standards Board, a chartered accountant cannot exercise lien over client documents/ records for non-payment of his fees. (d) Yes. As per Clause 7 of Part I of Second Schedule of Chartered Accountants Act, 1949, the above act of Mr. J will make him guilty of professional misconduct.</p>
Incs.51.4	<p>In the given case scenario, visiting cards printed by Mr. K & Mr. J, is there anything which may lead to professional misconduct? If so, under what provisions?</p> <p>(a) Mentioning 'CPA Ireland' & the term 'Insolvency Professional' by Mr. K & Mr. J respectively violates the provisions of clause 7 of part I of First schedule of the Chartered Accountants Act, 1949. Hence, both of them shall be held guilty of professional misconduct. (b) There is no information contained in both the visiting cards, which leads to professional misconduct. All details mentioned are abiding the provisions of clause 7 of part I of First schedule of the Chartered Accountants Act, 1949. (c) Mentioning 'CPA Ireland' by Mr. K violates the provisions of clause 6 & clause 7 of part I of First schedule of the Chartered Accountants Act, 1949. Hence, Mr. K shall be held guilty of professional misconduct. However, as far as Mr. J's card is concerned, nothing mentioned in it is against the provision of Chartered Accountants Act, 1949, so he shall not be held guilty of professional misconduct. (d) Mentioning the term 'Insolvency Professional' by Mr. J violates the provisions of clause 7 of part I of First schedule of the Chartered Accountants Act, 1949. Hence, he shall be held guilty of professional misconduct. However, as far as Mr. K's card is concerned, nothing mentioned in it is against the provision of Chartered Accountants Act, 1949, so he shall not be held guilty of professional misconduct</p>
Incs.51.5	<p>The firm had received the following assignments:</p> <p>(i) Concurrent audit for T Bank Ltd. (ii) Statutory audit for BBT Bank Ltd. (it is to be noted that the bank was not sponsored by T Bank) (iii) Offer to act as settlor of ZZ Charitable Trust. (iv) Internal audit of PF Trust of Government Company Ltd. (v) Statutory Auditor of Government Company Ltd.</p> <p>Among the above assignments, which assignments can be accepted by the firm?</p> <p>(a) Either (i) or (ii), (iii) & Either (iv) or (v) (b) (i), (ii), (iii) & Either (iv) or (v) (c) Either (i) or (ii) & Either (iv) or (v) (d) (ii) only</p>
Incs.52	N22M
	<p>Mr. Paras has been appointed statutory auditor under Companies Act, 2013 of DEMA Limited., a company engaged in manufacturing of range of products. DEMA Limited was also listed on NSE. Besides, he was also appointed to conduct audit u/s 44AB of Income Tax Act. Mr. Chandra, relative of Mr. Paras was involved in the business of trading stocks listed on NSE. During the year FY 21-22 Mr. Chandra performed the following trades</p>

Name of Stock	Date of Transaction	Purchase / Sale	Quantity	FV per Share	Market Value per Share
DEMA Limited	1-4-2021	Purchase	10	10	3500
DEMA Limited	1-4-2021	Purchase	90	10	3300
DEMA Limited	30-04-2021	Sale	50	10	3600
DEMA Limited	10-05-2021	Purchase	60	10	3450
DEMA Limited	10-05-2021	Purchase	50	10	5000
DEMA Limited	11-05-2021	Purchase	10	10	5050
DEMA Limited	30-06-2021	Sale	30	10	3750

Thereafter no transaction in the shares of DEMA limited was performed by Mr. Chandra during the year. Moreover, Mr. Paras identified a fraud related to misappropriation of cash amounting to ` 3 Crore in the books of the company. In this fraud, Procurement Manager and Payment Managers were together involved. As per provision of Section 143(12) Mr. Paras, reported fraud to Audit Committee within 7 days from date of identification and asked audit committee to submit their response. Audit Committee did not respond as they wanted to investigate further on this.

In the absence of any reply, audit committee and, understanding the nature of issue, Mr. Paras did not report this issue to anyone as it could impact negatively to the image of the company. Further, Mr. Paras made necessary change in their audit procedures to extent their coverage of Procurement and Payments area. After performing additional procedures over Procurement and Payment business process, Mr. Paras identified that the internal controls over the said area are significantly deficient. Mr. Paras did not communicate this finding with those Charged with Governance as he already reported about the fraud and the Audit Committee was investigating the same.

Mr. Paras also identified that the internal audit function reports directly to the management and they do not have any direct communication with those charged with governance or an officer with the appropriate authority. Also, all the findings of internal audit function are first reported to the management and then the management decides what to report to those charged with governance from the findings of internal audit function.

At the end, Mr. Paras issued a qualified opinion, and, in his report, he mentioned the following paragraph under the head "Basis of Qualified Opinion":

"a. Company has not disclosed the impact of pending litigations on its financial position in its financial statement. The impact assessed for the pending litigation is ` 4.5 Crore (Best Estimate).

b. During the audit, a fraud related to misappropriation of cash amounting to ` 3 Crore was identified in

the books of the company.

c. Company has not made any provision, as required under any law or accounting standards, for material

foreseeable losses on long term contracts including derivative contracts. During the year, as per assessment performed by an expert, the amount of provision for material foreseeable loss on long term

contracts was estimated at ` 7 Crore for which no provision was made."

No other reference or reporting was made of these qualifications in audit report.

On the basis of the abovementioned facts, you are required to answer the following MCQs:

Incs.52.1 Kindly guide whether Mr. Paras is eligible to be appointed as a Tax Auditor of DEMA Limited u/s 288 of the Income Tax Act, by selecting the appropriate option from below:

(a) As per 288(2)(viii)(a) of Income Tax Act read with Section 141(3) of Companies Act, relative of Mr. Paras is holding securities of market value of ` 1,00,000 or more and hence Mr. Paras is not eligible to be appointed as Tax Auditor.

	<p>(b) As per 288(2)(viii)(a) of Income Tax Act read with Section 141(3) of Companies Act, relative of Mr. Paras is not holding securities of face value having ` 1,00,000 or more and hence Mr. Paras is eligible to be appointed as Tax Auditor.</p> <p>(c) As per Section 288(2)(viii)(b) relative of Mr. Paras is indebted to the company or its subsidiary or its holding or associate company or a subsidiary of such holding company and hence Mr. Paras is not eligible to get appointed as a Tax Auditor.</p> <p>(d) Relative of Mr. Paras is the person who is competent to verify the return under section 139 in accordance with the provisions of section 140 and hence Mr. Paras is eligible to get appointed as a Tax Auditor.</p>
Incs.52.2	With respect to the qualifications (a) and (c) specified in the Audit Report, kindly guide with respect to the additional reporting requirement of these matters in audit report.
	<p>(a) As per the Companies (Auditor's Report) Order, 2020, Auditor is required to report these matters under reporting done for Para 3(ix) of the Order.</p> <p>(b) As per section 143(3)(j) read with Rule 11(a) & 11(b) of The Companies (Audit and Auditors) Rules, 2014, Auditor is required to report or give reference of these matters.</p> <p>(c) Company is not required to report these matters anywhere else except for qualification under the head "Basis for Qualification"</p> <p>(d) Company should report this matter under the head "Management Responsibilities".</p>
Incs.52.3	With respect to identification of Fraud in the books of account of the company, Kindly guide Mr. Paras with respect to the appropriate reporting requirements under section 143(12) of Companies Act.
	<p>(a) Mr. Paras should have reported the matter to Audit Committee within 2 days of identification of the fraud. However, Mr. Paras is valid in not reporting this issue further as it could negatively to the image of company.</p> <p>(b) Mr. Paras should have reported the matter to Audit Committee and Board of Directors within 7 days of identification of the fraud. Hence, Mr. Paras did not report to Board of Director which is inappropriate.</p> <p>(c) Mr. Paras should have reported the matter to Audit Committee within 2 days of identification of the fraud. Over and above Mr. Paras should have reported this matter to the Central Government as per prescribed rules.</p> <p>(d) Mr. Paras should not have reported this matter to Audit Committee. Mr. Paras should have reported matter first to central government within 2 days of identification of fraud.</p>
Incs.52.4	With respect to the reporting of significant deficiencies to those charged with governance, kindly guide Mr. Paras with respect to appropriate provisions in this regard.
	<p>(a) As per SA 315, the engagement partner shall determine which matters are to be communicated to management and those charged with governance involved in the discussion.</p> <p>(b) As per SA 265, the auditor shall communicate in writing significant deficiencies in internal control identified during the audit to those charged with governance on a timely basis.</p> <p>(c) As per SA 315, the auditor should understand the communications between management and those charged with governance before communicating anything to those charged with governance.</p> <p>(d) As per SA 450, the auditor shall communicate on a timely basis critical misstatements accumulated during the audit with the appropriate level of management, unless they are already communicated with management earlier in any form.</p>
Incs.52.5	The external audit team decided to rely on and to use the work of internal audit function in the area where more judgment was involved or where the risk of material misstatement was assessed at a higher level. Based on the above information, kindly guide the audit team regarding use of the work of internal audit function as per SA 610 by selecting the appropriate option from below:
	<p>(a) The external auditor shall not use the work of an internal audit function if the external auditor determines that the internal audit function's organizational status and the relevant policies and procedures do not adequately support the objectivity of the internal auditors.</p> <p>(b) The external auditors shall not use the work of an internal audit function if the external auditor determines that the internal audit function's organizational structure and relevant policies and procedures do adequately support the objectivity of internal auditors.</p>

(c) The external auditor shall use the work of the internal audit function if the external auditor determines that the internal audit function applies a systematic and discipline approach including quality control while discharging their duties.

(d) The external auditor shall not use the work of the internal audit function if the external auditor determines that the internal audit function does not lack sufficient competence to discharge their duties.

Incs.53

N22M

During the planning stage of audit of Mobile & Cell Limited, the statutory auditor of the company, ABC & Co, decided:

1. To evaluate whether to use the work of internal audit function to gather sufficient and appropriate audit evidence for the purpose of expressing opinion on the financial statement of the company.
2. To perform test counts on a sample basis for Inventory Balance which was material. Also, the audit team will inquire management to provide copies of management's completed physical inventory count which will assist them in performing subsequent procedures required to determine whether inventory records accurately reflect actual inventory count results.
3. To perform substantive analytical procedures to gather sufficient and appropriate audit evidence for payroll cost. Audit team decided to recalculate the payroll cost by multiplying the total employees of the company with the average pay-out per employee.
 4. To perform substantive procedures over the direct expenses which were assessed as a material with respect to the financial statement as a whole. Moreover, the number of items/transactions in direct expense were huge and of were of non-homogenous nature. As a result, audit team decided to select some samples from each identified strata disaggregated to the lowest level based on their characteristics.
5. The performance materiality for assessing any misstatement was fixed at ` 10,00,000/-.

During the audit phase the audit team identified that

- I. The internal audit function reports directly to the management and they do not have any direct communication with the those charged with governance or an officer with the appropriate authority. Also, all the findings of internal audit function are first reported to the management and then the management decides what to report to those charged with governance from the findings of internal audit function.
- II. Since last three years the company is making cash losses and is facing liquidity crisis. Moreover, there was a huge loan instalment due for repayment in next three months. Considering the company's liquidity profile, it was evident that company will default the upcoming loan instalment and the payment of interest there on. When inquired with the management as to how they will deal with this situation and how they will consider the impact of these events on management's assumption of going concern, the management contended that the company would raise more funds through issue of fresh equity in the primary market to manage the liquidity requirements.
- III. Moreover, there was an ongoing litigation on Company and its Officers for misappropriation of loan funds. As a result, after analysing the SEBI Listing Requirements, it was evident that company was not in position to issue fresh equity in the primary market.
- IV. In one of the direct tax litigations, the adjudicating authority issued an unfavourable order against the company because of which the company was now required to pay huge fines and interest to the Tax Authority. The amount of fine and interest there on was material.
- V. The engagement manager identified that the total payroll costs booked for the period was ` 30,00,000/- for total 150 employees employed throughout the year from the payroll records & register. Engagement manager was able to identify that the average pay-out per employee was ` 20,500/-. Also, the independent expectation developed for the payroll cost was between ` 30,00,000/- to ` 32,00,000/- for the year.'
- VI. The Audit team performed the testing of direct expense and following is the outcome:

Strata Name	Balance as per books	Total of sample value	No of Samples	Exception amount in samples	Reason for exception
Freight Expense	5,00,000	1,00,000	10	25,000	One invoice was incorrectly booked
Loading Charges	4,00,000	80,000	15	0	NA
Shipping Charges	9,00,000	2,70,000	10	0	NA
Packaging Expense	8,00,000	2,40,000	5	3,000	No documents were available for the said samples
Storing Expense	12,00,000	1,20,000	10	8,000	Warehouse charges were booked as storing expense. Wrong classification
Total	38,00,000	8,10,000	50	36,000	Projected misstatement was 1,68,889/- (36,000 / 8,10,000 x 38,00,000).

VII. Management allowed auditor to attend the physical inventory count, however, management did not allow audit team to perform any other procedure during the physical count. When inquired from management regarding the denial to the auditor from performing additional audit procedures along with attending the inventory count, the management explained that the inventory consists of very unstable chemicals and inflammable gases which require handling with skill and care. Any carelessness in handling the inventory can result in catastrophe. As a result, due to safety standards and policies, the management cannot allow the auditor to perform additional audit procedures.

On the basis of the abovementioned facts, you are required to answer the following MCQs:

Incs.53.1	Auditor of the company decided to draw attention of the users of the audit report on the existence of the material uncertainty related to events that have casted significant doubts on the entity's ability to continue as going concern by disclosing the same in other matter paragraph. As an Engagement Quality Control Reviewer, guide the Auditor about the correct way of disclosing the existence of the material uncertainty related to events that have casted significant doubts on the entity's ability to continue as going concern when the management has not made appropriate disclosure of a material uncertainty in the financial statement.
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(a) When the management has not made appropriate disclosure of a material uncertainty in the financial statement and there exists a material uncertainty related to events that have casted significant doubts on the entity's ability to continue as going concern then the auditor should disclose the same in "Key Audit Matter" section in Audit Report only. No other disclosure is required.

(b) Disclosure of the material uncertainty in the financial statement is the responsibility of the management and the auditor should not comment on the same.

(c) When the management has not made appropriate disclosure of a material uncertainty in the financial statement and there exists a material uncertainty related to events that have casted significant doubts on the entity's ability to continue as going concern then the auditor should express a qualified or adverse opinion and should mention in the Basis of Qualified / Adverse Opinion section of the Audit Report about existence of the material uncertainty.

(d) When the management has not made appropriate disclosure of a material uncertainty in the financial statement and there exists a material uncertainty related to events that have casted significant doubts on the entity's ability to continue as going concern then the auditor should express an unmodified opinion and should obtain the written representation about existence of the material uncertainty from management.

Incs.53.2	<p>In view of current scenario, which of the following requirements as per SA 610 are required to be fulfilled by Statutory Auditors of the Company, prior to using the direct assistance of the Internal Audit Team?</p>
<p>(a) Statutory Auditors should obtain written agreement from the management of the Company. that the internal audit team will be allowed to follow the statutory auditors' instructions.</p> <p>(b) Statutory auditors should obtain written agreement from internal audit team that his team will keep the matters confidential.</p> <p>(c) Both a & b.</p> <p>(d) Statutory Auditors can use the direct assistance of the internal audit team after discussing the same with the management. No prior written agreement is required.</p>	
Incs.53.3	<p>Considering the inherent limitation with respect to the inventory count, the audit team decided not to perform any other procedure or not to obtain any documentary evidence from management with respect to inventory. Guide the audit team in the current scenario by selecting the appropriate option from below:</p>
<p>(a) If the auditor has not obtained sufficient appropriate audit evidence as to a material financial statement assertion, the auditor shall not attempt to obtain further audit evidence.</p> <p>(b) If the auditor has not obtained sufficient appropriate audit evidence as to a material financial statement assertion, the auditor shall attempt to obtain further audit evidence. If the auditor is unable to obtain sufficient appropriate audit evidence, the auditor shall express a qualified opinion or a disclaimer of opinion.</p> <p>(c) In case where audit team is not able to obtain sufficient and appropriate audit evidence as to a material financial statement assertion, then the auditor should appoint management's expert and should try to obtain required evidence from such expert.</p> <p>(d) In case where audit team is not able to obtain sufficient and appropriate audit evidence as to a material financial statement assertion, then the auditor should communicate to management and should obtain written representation from them.</p>	
Incs.53.4	<p>Based on the recalculation performed by the audit team, the total payroll cost arrived for the period was 30,75,000/-. Analyse and guide the audit team with respect to the results obtained from the substantive analytical procedure by selecting the appropriate option from below:</p>
<p>(a) The difference identified between the payroll costs derived through substantive analytical procedure and the expectation developed is material based on the materiality fixed by the audit team and hence it requires further investigation.</p> <p>(b) The amount derived through substantive analytical procedure is not in congruence with the total amount of the payroll cost booked for the period. Hence the audit team should investigate the reasons for the difference between the amount derived and the actual cost booked.</p> <p>(c) The total payroll cost arrived is well within the expectation developed and the difference between the amount recorded and the amount derived through substantive analytical procedure is not material. Hence, it does not require any further investigation.</p> <p>(d) The difference identified between the amount derived through substantive analytical procedure and amount developed as an expectation is significant and the audit team should obtain appropriate written representation from management with respect to the completeness and accuracy of the amount derived through substantive analytical procedure</p>	
Incs.53.5	<p>Based on the above outcome of the direct expense testing the audit team decided to project the total misstatement on the entire balance considered for testing. As per the calculation performed, the projected misstatement was ` 1,68,889/-. Kindly analyse and guide the audit team with respect to the results obtained from the substantive testing by selecting the appropriate option from below:</p>
<p>(a) The projected misstatement calculated is appropriate. Moreover, Based on the performance materiality and projected misstatement the auditor should modify his opinion.</p> <p>(b) When a class of transactions or account balance has been divided into strata, then the misstatement is required to be projected for each stratum separately. Hence, the audit team's approach is incorrect with respect to the calculation of projected misstatement. The Audit team should recalculate the projected misstatement and then they should consider its impact on overall audit opinion based on the materiality.</p> <p>(c) The audit team should have considered the exception of ` 8,000/- twice while calculating the projected misstatement, as the error is regarding wrong classification and the same will affect two class of transactions</p>	

or balances. Hence audit team should consider revising the projected misstatement and then they should consider its impact on overall audit opinion based on the materiality.

(d) Audit team has appropriately calculated the projected misstatement. However, before modifying the audit opinion the audit team should obtain written representation with respect to the completeness and accuracy of the direct expense balance which could serve as a sufficient and appropriate.

Incs.54 N22M

CA. Kamlesh Dutta was appointed as the engagement partner on behalf of Dutta & Associates for conducting the statutory audit for 3rd consecutive year of Pramati Limited, an unlisted public company, with a turnover of

35 crore during F.Y. 2019-20.

From F.Y. 2020-21 onwards, Pramati Limited had voluntarily adopted to prepare its financial statements as per Division II of Schedule III of the Companies Act, 2013, due to which Dutta & Associates had revised the terms of audit engagement for the current audit engagement. As per the revised terms, it was decided that the auditor's report on the financial statements will incorporate a paragraph in accordance with SA 706, drawing users' attention to the additional disclosures. Moreover, it was decided that management will also present appropriate disclosures in Financial Statement with respect to this change.

While auditing the entity, CA. Kamlesh came across a business policy of Pramati Limited that required to invest some portion of its money earned in its business in securities of different blue-chip companies and due to this reason, almost 55% of Pramati Limited's total assets consisted of such investments. These securities transactions were handled by its broker company, River Securities Private Limited (RSPL). RSPL was also performing necessary investment account reconciliations and was also preparing the MTM gain and loss calculation for the entity. Pramati Limited used to rely upon the calculations performed by RSPL and based on that they pass the MTM entry for their current investments every month. Pramati Limited were relying on the controls present in RSPL for the preparation of this entry. They also listed controls present in RSPL in their Risk Control Matrix as key controls.

The engagement quality reviewer, CA. Tushar, recommended CA. Kamlesh to obtain a Type 2 report from the management of RSPL to which CA. Kamlesh said that it was not required to do so as management was already comfortable with the controls present in RSPL.

Further while conducting the audit, CA. Kamlesh observed that investments in certain securities were sold at

a price less than at which they were acquired and he didn't report on such matter as per Section 143(1) of the Companies Act, 2013, without even considering to inquire into the propriety aspect of the same.

CA. Kamlesh made the following observations while examining the financial statements prepared by the company as per Division II of Schedule III of the Companies Act, 2013, for the first time: -

(1) Other non-operating income and expenses related to it were shown separately in the statement of Profit and Loss.

(2) Trade payables (payable after 12 months) and Deferred tax liabilities were shown directly under the head "Non-Current Liabilities".

While finalizing the audit report, CA. Kamlesh prepared a letter containing key important points to be communicated to Those Charged with the Governance and Audit Committee of the entity. This letter was prepared in addition to the audit report. The audit team was of the view that for the above-mentioned letter the audit team is required to generate UDIN.

On the basis of the abovementioned facts, you are required to answer the following MCQs:

Incs.54.1 While finalizing the audit report CA. Kamlesh decided to present the early adoption of IND AS under the "Other Matter Paragraph" as in the auditor's judgment, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report. Kindly guide CA. Kamlesh with respect to correct reporting in the Audit Report as per SA 706:

(a) No disclosure is required as it is voluntary adoption of Division II of Schedule III of the Companies Act, 2013.

(b) The Audit team should report the change in the "Emphasis of Matter Paragraph" because, in the auditor's judgment, it is of such importance that it is fundamental to users' understanding of the financial statements.

	<p>(c) The Audit team should report the change in the “Other Matter Paragraph” because, in the auditor’s judgment, it is of such importance that it is fundamental to users’ understanding of the financial statements.</p> <p>(d) The Audit team should qualify as per SA 705 the said change as it was not required to be implemented and this will create unnecessary confusion for the read.</p>
Incs.54.2	<p>CA. Kamlesh ’s risk assessment includes an expectation that controls at the service organization are operating effectively and he contended that there was no requirement to obtain a Type 2 report. Kindly guide CA. Kamlesh with respect to the requirement of SA 402</p>
	<p>(a) CA. Kamlesh ’s contention is correct as Management has comfort over the controls at service organization for the transactions and activities which are processed there.</p> <p>(b) When the user auditor’s risk assessment includes an expectation that controls at the service organization are operating effectively, the user auditor shall obtain audit evidence about the operating effectiveness of those controls which may include by obtaining Type 2 report.</p> <p>(c) It depends upon the auditor’s judgment and the recommendation of the engagement quality reviewer is not binding upon Audit team. As a result, CA. Kamlesh ’s decision will be considered correct and appropriate.</p> <p>(d) As no services are outsourced to the broker company and hence there is no need to obtain the type 2 report.</p>
Incs.54.3	<p>Whether it is justifiable that CA. Kamlesh didn’t report on the matter with respect to sale of investments even without inquiring for the same?</p>
	<p>(a) No, as at least CA. Kamlesh should have inquired into to such a propriety matter in order to satisfy that such sales were bona-fide.</p> <p>(b) Yes, as it is not mandatory for the auditor to report on the matters prescribed under the said section.</p> <p>(c) No, he should have at least consulted CA. Tushar before doing so.</p> <p>(d) Yes, as the relevant clause for the reporting is not applicable in case of Pramat Limited</p>
Incs.54.4	<p>Identify the errors, if any, in the preparation of financial statements by the company as per Division II of Schedule III of the Companies Act, 2013, from the observations made by CA. Kamlesh.</p>
	<p>(a) Other non-operating income should have been shown by netting off the expenses related to it and trade payables and Deferred tax liabilities should be shown under the sub-heading ‘Financial Liabilities’ under the head ‘Non-current liabilities’.</p> <p>(b) Trade payables and Deferred tax liabilities should be shown under the sub-heading ‘Financial Liabilities’ under the head ‘Non-current liabilities’.</p> <p>(c) Other non-operating income should have been shown by netting off the expenses related to it and trade payables should be shown under the sub-heading ‘Financial Liabilities’ under the head ‘Noncurrent liabilities’.</p> <p>(d) Trade payables should be shown under the sub-heading ‘Financial Liabilities’ under the head ‘Noncurrent liabilities’.</p>
Incs.54.5	<p>CA. Kamlesh was not sure with respect to the UDIN requirement for the letter to Those Charged with Governance containing important audit topics and findings for discussion. Kindly guide CA. Kamlesh with respect to UDIN requirements for this letter.</p>
	<p>(a) Separate UDINs are to be generated for the Statutory audit report and Letter to Those Charged with Governance.</p> <p>(b) UDIN is only required for the Statutory Audit Report, but it is not required for the communication performed by Auditor as per SA 260 and SA 265.</p> <p>(c) One single UDIN is required to be generated for all items for this Client. UDINs are required to be generated Client wise instead of report-wise.</p> <p>(d) One single UDIN will be generated for the whole year for this engagement which may include various communication by auditor to management and Those Charged with Governance.</p>

Incs.55	N22M
	<p>KKML & Associates was appointed statutory auditor for FY 2021-22 of AMPL Limited (a steel & Iron manufacturing company and NSE-listed company) for the first time. CA. Kush was engagement partner for this assignment. Last year, it was audited by Ananya & Company Chartered Accountants. Ananya & Company charged ` 7,00,000 for the statutory audit for FY 2020-2021. Over and above that, Ananya & Company raised bills for overtime and out-of-pocket expense of ` 1,50,000. AMPL Limited paid ` 7,00,000 to Ananya & Company but raised a dispute over the calculation of overtime. As per AMPL Limited, the overtime on account of additional work as recalculated along with OPE should be ` 95,000/- and the same was paid on a day before proposing the appointment of CA. Kush as a Statutory Auditor. This OPE was accounted only to the extent of ` 80,000 on a provisional basis in books of accounts for FY 2020-21.</p> <p>CA. Kush before accepting the appointment, communicated with Ananya & Company, as to why he should not accept the appointment as a Statutory Auditor for AMPL Limited. Ananya & Company replied on the same day stating the reason for not accepting the appointment as there were pending audit fees of ` 55,000/- (1,50,000 – 95,000) for FY 2020-21. After analysing the whole situation CA. Kush communicated with Ananya & Company that this was a case of disputed audit fees, and he cannot decline acceptance of the appointment on this basis. Later, CA. Kush accepted the appointment.</p> <p>Moreover, while proposing the appointment of CA. Kush, AMPL Limited issued a general notice to pass a resolution at AGM for the appointment of CA. Kush. The same was passed and a copy of the resolution and the notice were served to Ananya & Company after the AGM. This resolution was proposed by the Audit Committee consisting of 7 Directors i.e. Mr. Ram, Mr. Shyam, Mrs. Shweta, Mrs. Komal, Mrs. Jaya, Mrs. Prabha and Mr. Anand. Out of these, Mr. Shyam, Mrs. Shweta (Chairperson of the Audit Committee) and Mrs. Komal were not independent directors. There was no change in this during the whole FY 2021 -22.</p> <p>CA. Akash, the Engagement Quality Control Reviewer, insisted CA. Kush analyse whether the opening balances reflect the application of appropriate accounting policies. CA. Kush contented that he is not required to verify as he is already testing for closing balances which contain opening balances and that will give comfort over the application of accounting policies.</p> <p>During the year, Mr. Shyam entered into an arrangement with the company wherein the company will transfer the residential flat (originally purchased by the company in his name) to Mr. Shyam for ` 4 Crore (originally purchased at ` 2 Crore and having FMV ` 4 Crore). Instead of consideration, the company will create a long term loan due from Mr. Shyam in the books of accounts at ` 3 Crore and for the rest (` 1 Crore) of the amount, Mr. Shyam will provide Plant and Machinery to the company. No reporting or further disclosures were made by the company for this transaction as this was at an arm's length price.</p> <p>On the basis of the abovementioned facts, you are required to answer the following MCQs:</p>
Incs.55.1	<p>Ananya & Company raised the contention that the appointment of CA. Kush is inappropriate as there were outstanding audit fees of ` 55,000 and he should not have accepted the appointment as Statutory Auditor. Considering the above scenario kindly guide CA. Kush on whether he should have declined the appointment on grounds of pending audit Fees</p>
	<p>(a) As per section 141 of the Companies Act, 2013, if another auditor other than the retiring auditor is getting appointed as Statutory Auditor in AGM then should not accept the appointment till the time the previous auditor's audit fees are paid in full.</p> <p>(b) As per section 139 read with Rule 3, if another auditor other than the retiring auditor is getting appointed as Statutory Auditor in AGM then he should not accept the appointment till if the previous auditor's audit fees are outstanding for a period of 180 days or more.</p> <p>(c) CA. Kush can accept a position as auditor previously held by another chartered accountant or a certified auditor i.e., Ananya & Company who has been issued a certificate under the Restricted Certificate Rules, 1932 without first communicating with him in writing.</p>

	<p>(d) CA. Kush can accept the appointment as statutory auditor as the pending fees are disputed fees and this would not constitute valid professional reasons on account of which an audit should not be accepted by the member to whom it is offered.</p>
Incs.55.2	<p>Ananya & Company contended that they were not given special notice and hence the appointment of CA. Kush is invalid. Considering the above scenario kindly guide CA. Kush on what course of action he should have adopted in the current case.</p>
	<p>(a) Clause (9) of Part I of the First Schedule to Chartered Accountants Act, 1949 provides that a member in practice shall be deemed to be guilty of professional misconduct if he accepts an appointment as auditor of a Company without first ascertaining from it whether the requirements of Sections 139 and 140 of the Companies Act, 2013 and hence CA. Kush is guilty of professional misconduct and his appointment is invalid.</p> <p>(b) Clause (8) of Part I of the First Schedule to Chartered Accountants Act, 1949 provides that a member in practice shall be deemed to be guilty of professional misconduct if he accepts an appointment as auditor of a Company without first ascertaining from it whether the requirements of Sections 139 and 140 of the Companies Act, 2013 and hence CA. Kush is guilty of professional misconduct and his appointment is invalid.</p> <p>(c) As per section 140(4) of the Companies Act, 2013, the company is required to share the general resolution and notice of appointment of another auditor once the resolution is passed in AGM. Hence, CA. Kush's appointment is valid and hence is not required to perform anything further.</p> <p>(d) CA. Kush before getting appointed communicated with the previous auditor which was sufficient and equivalent to special notice. Hence, the contention of Ananya & company is incorrect.</p>
Incs.55.3	<p>Whether contention of CA. Akash, the Engagement Quality Control Reviewer regarding analysis of the opening balances is correct. Kindly guide CA. Kush with the correct course of action as per SA 510.</p>
	<p>(a) The auditor shall obtain sufficient appropriate audit evidence about whether the accounting policies reflected in the opening balances have been consistently applied in the current period's financial statements, and whether changes in the accounting policies have been properly accounted for and adequately presented and disclosed in accordance with the applicable financial reporting framework.</p> <p>(b) The auditor shall obtain sufficient appropriate audit evidence about whether the material accounting policies reflected in the closing balances have been consistently applied in the current period's financial statements when there is a material change.</p> <p>(c) If the auditor has identified misstatement in the drafting of accounting policies in the current period, then he shall obtain sufficient appropriate audit evidence about whether the accounting policies reflected in the opening balances were appropriately drafted and applied.</p> <p>(d) The auditor is not required to obtain sufficient appropriate audit evidence about whether the accounting policies reflected in the opening balances have been consistently applied in the current period's financial statements, and whether changes in the accounting policies have been properly accounted for and adequately presented and disclosed in accordance with the applicable financial reporting framework.</p>
Incs.55.4	<p>In the current case, Audit Committee of AMPL Limited is consisting of 7 Directors i.e. Mr. Ram, Mr. Shyam, Mrs. Shweta, Mrs. Komal, Mrs. Jaya, Mrs. Prabha and Mr. Anand. Out of these, Mr. Shyam, Mrs. Shweta (Chairperson of the Audit Committee) and Mrs. Komal were not independent directors.</p> <p>Chief Compliance Officer of the company raised an issue that the company has not complied with SEBI LODR Regulations. He also, insisted CA. Kush focus on this while performing the audit. You are required to verify the compliance with SEBI LODR Regulations based on the above-mentioned scenario. Kindly select the appropriate option from below depicting the correct provision of SEBI LODR regulation with respect to the Audit Committee:</p>
	<p>(a) As per Regulation 17 of SEBI LODR Regulation, the audit committee shall have a minimum of two directors as members. At least one-third of the members of the audit committee shall be independent directors and the Chairperson of the audit committee shall be an independent director. Thus, contention of Chief Compliance Officer is correct.</p> <p>(b) As per Regulation 18 of SEBI LODR Regulation, the audit committee shall have a minimum of five directors as members. At least one-third of the members of the audit committee shall be independent directors and the chairperson of the audit committee can be a non-independent director provided not more than one-third of directors shall be executive directors. Thus, contention of Chief Compliance Officer is not correct.</p>

	<p>(c) As per Regulation 19 of SEBI LODR Regulation, the audit committee shall have a minimum of five directors as members. At least one-third of the members of the audit committee shall be nonexecutive directors and the chairperson of the audit committee shall be an independent director. If the chairperson is an executive director, then not more than one-third of directors shall be executive directors. Thus, contention of Chief Compliance Officer is correct.</p> <p>(d) As per Regulation 18 of SEBI LODR Regulation, the audit committee shall have a minimum of three directors as members. At least two-thirds of the members of the audit committee shall be independent directors and the Chairperson of the audit committee shall be an independent director. Thus, contention of Chief Compliance Officer is correct.</p>
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Incs.55.5	<p>CA. Kush was perplexed concerning reporting a transaction entered between Mr. Shyam and the Company for the transfer of the Immovable Property. You are being the Engagement Quality Control Reviewer, kindly guide CA. Kush concerning the appropriate reporting of the said transaction as per CARO 2020.</p>
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	<p>(a) As per para 3(xv) of CARO 2020, Auditor is required to report whether the company has entered into any non-cash transactions with directors or persons connected with him and if so, whether the provisions of section 192 of the Companies Act have been complied with.</p> <p>(b) As per para 3(xiv) of CARO 2020, Auditor is required to report whether the company has entered into any non-cash transactions, other than being at arm's length price, with directors or persons connected with him and if so, whether the provisions of section 192 of Companies Act have been complied with.</p> <p>(c) As per para 3(ix) of CARO 2020, Auditor is required to report whether the company has raised loans during the year on the pledge of securities held in its subsidiaries, joint ventures or associate companies, if so, give details thereof and also report if the company has defaulted in repayment of such loans raised.</p> <p>(d). As per para 3(ix) of CARO 2020, Auditor is required to report whether the company has revalued its Property, Plant and Equipment (including Right of Use assets) or intangible assets or both during the year and, if so, whether the revaluation is based on the valuation by a Registered Valuer; specify the amount of change, if the change is 10% or more in the aggregate of the net carrying value of each class of Property, Plant and Equipment or intangible assets.</p>
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Incs.56	M23R
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Good Deposit Limited a NBFC registered with RBI under section 45-IA of the RBI Act and listed on National Stock Exchange, appointed ABC & Co. Chartered Accountants as their statutory Auditor for the financial year ending on 31 March 2023. Mr. J the audit partner of ABC & Co. extracted the monthly net owned fund position from the books of Goods Deposit Limited. ABC & Co was peer-reviewed last in January 2019, and its peer review certificate was valid until January 2022. ABC & Co did not apply for Peer Review after January 2022 till the date of the acceptance of the audit.

Month	Net Owned Funds (as calculated based on monthly position)
April 2022	₹ 350 Lakh
May 2022	₹ 350 Lakh
June 2022	₹ 320 Lakh
July 2022	₹ 310 Lakh
August 2022	₹ 290 Lakh
September 2022	₹ 250 Lakh
November 2022	₹ 190 Lakh
December 2022	₹ 180 Lakh
January 2023	₹ 240 Lakh
February 2023	₹ 270 Lakh
March 2023	₹ 310 Lakh

The Board of Good Deposits Limited consisted of 9 directors, of which five were non-executive, including a woman director, and two were independent. Out of the above, the Chairperson of the Board was a regular non-executive director and promoter of the Company. The Company was not out of the 1000 top listed entities for the past five years.

During the year, Mr. J recommended to the Board and Audit Committee to have internal auditors. However, Board, citing budget issues, rejected the Audit Partner's recommendation. Board, however, assured that they would consider next year to have an internal audit department within the Company

On the basis of the abovementioned facts, you are required to choose the most appropriate answer for the following MCQs:

Incs.56.1	<p>Mr J reported, under Clause 3(A)(III) of Master Direction - Non-Banking Financial Companies Auditor's Report (Reserve Bank) Directions, 2016, that Good Deposit Limited is not eligible to hold its Certificate of Registration under section 45-IA of the RBI Act, as during the year the Net Owned Funds went below the minimum required limit. Management of the NBFC had a different opinion that a certificate pertaining to the Net Owned Funds from the Statutory Auditor is required with reference to the position of the Company as at the end of the financial year ended 31 March and not based on each month's position. Kindly guide Mr J with respect to the requirement under Master Direction.</p>
<p>(a) Every NBFC shall submit a Certificate from its Statutory Auditor that it is eligible to hold a Certificate of Registration under Section 45-IA of the RBI Act. Such a certificate should be with reference to the position of the Company as of the end of the financial year ended 31 March.</p> <p>(b) Every NBFC shall submit a Certificate from its Statutory Auditor that it is eligible to hold a Certificate of Registration under Section 45-IA of the RBI Act. Such a certificate should be with reference to the position of the Company as of the end of each month.</p> <p>(c) Every NBFC shall submit a Certificate from its Statutory Auditor that it is eligible to hold a Certificate of Registration under Section 45-IA of the RBI Act. Such a certificate should be with reference to the position of the Company throughout the financial year.</p> <p>(d) Only NBFC-MFI shall submit a Certificate from its Statutory Auditor that it is eligible to hold a Certificate of Registration under Section 45-IA of the RBI Act. Such a certificate should be with reference to the position of the Company throughout the financial year</p>	
Incs.56.2	<p>Mr J was of the opinion that the Composition of the Company's Board of Directors is not in compliance with the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015. Kindly Guide the management with respect to the provision, which is not complied by the management, specified in Regulation 17 of SEBI LODR Regulations.</p>
<p>(a) Where the regular non-executive Chairperson is a promoter of the listed entity or is related to any promoter or person occupying management positions at the level of the Board of director or at one level below the Board of directors, at least half of the Board of directors of the listed entity shall consist of independent directors.</p> <p>(b) Where the Chairperson of the Board of directors is a non-executive director, at least one-third of the Board of directors shall comprise of independent directors and where the listed entity does not have a regular non-executive chairperson, at least half of the Board of directors shall comprise of independent directors.</p> <p>(c). The Board of directors shall have an optimum combination of executive and nonexecutive directors with at least one-woman director, and not less than fifty per cent of the Board of directors shall comprise of non-executive directors.</p> <p>(d). Where the Chairperson of the Board of directors is a non-executive director, at least one-fourth of the Board of directors shall comprise of independent directors and where the listed entity does not have a regular non-executive chairperson, at least one-third of the Board of directors shall comprise of independent directors.</p>	
Incs.56.3	<p>At the time of accepting the Audit of Good Deposit Limited, the quality engagement partner objected that ABC & Co. does not hold a peer review certificate and hence cannot accept the statutory audit of the NBFC. Mr J was of the opinion that ABC & Co were falling under the Level-II category, and hence, they are required to get themselves peer reviewed once in 4 years. Kindly guide Mr J with respect to the peer review requirements as per Peer Review Guidelines 2022.</p>
<p>(a) Every Practice Unit falling under the category of Level II is required to get peer-reviewed once in every 4 years. ABC & Co. was last peer reviewed in January 2019, and accordingly, they need to get themselves peer reviewed by January 2023.</p> <p>(b) As per the peer review mandate, Practice Units which propose to undertake Statutory Audits of enterprises whose equity or debt securities are listed in India or abroad as defined under SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, for these Practice Units, there is a pre-</p>	

	<p>requisite, starting from 1 April 2022, of having Peer Review Certificate before undertaking the Statutory Audit assignment.</p> <p>(c) Every Practice Unit falling under the category of Level II is required to get peer-reviewed once every 3 years. ABC & Co. was last peer reviewed in January 2019, and accordingly, they need to get themselves peer reviewed by January 2022.</p> <p>(d) Practice Units are required to wait for the allotment of Peer Reviewers by the Board. Once the names of Peer reviewers are intimated by the Practice Unit, then the Practice Unit can initiate the process of Peer Review with the reviewer.</p>
Incs.56.4	<p>Mr J wants to highlight the matter with respect to the absence of internal audit function in his audit report under the Emphasis of Matter paragraph. However, management was of the view that the audit partner was not right by disclosing the said matter in his audit report as it was an internal matter, and the audit team had not identified any material evidence which could impact the opinion of the auditor. Kindly guide Mr J whether proposed reporting under Emphasis of Matter (EOM) para in the Audit Report is correct.</p> <p>(a) EOM paragraph included in auditor's report refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements. Hence reporting under EOM is correct.</p> <p>(b) EOM paragraph included in auditor's report refers to a matter other than those presented or disclosed in the financial statements that, in the auditor's judgment, is relevant to users' understanding of the audit, auditor's responsibilities or auditor's report. Hence reporting under EOM is incorrect.</p> <p>(c) EOM paragraph included in auditor's report refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements. Hence reporting under EOM is incorrect.</p> <p>(d) EOM paragraph included in auditor's report refers to a matter other than those presented or disclosed in the financial statements that, in the auditor's judgment, is relevant to users' understanding of the audit, auditor's responsibilities or auditor's report. Hence reporting under EOM is correct.</p>
Incs.56.5	<p>Kindly guide Mr J regarding areas where he may need to report the absence of Internal Audit Function in the Company in Audit Report.</p> <p>(a) The auditor is required to report the matter in the Basis of Qualification paragraph of his audit report as the Auditor was unable to place reliance on the internal audit function of the Company.</p> <p>(b) The auditor is required to report the same under Para 3(xiii) of the CARO (Companies Auditor's Report Order), 2020.</p> <p>(c) The auditor is required to report the same under Para 3(xiv) of the CARO (Companies Auditor's Report Order), 2020.</p> <p>(d) The auditor is required to report the said matter in Key Audit Matters as per SA 701, which requires significant professional judgement and user attention.</p>
Incs.57	<p style="text-align: right;">M23M</p> <p>Sambhav Limited is a listed nationalised bank whose face value per share is ` 100 each having its operation across India. Sambhav Limited appointed Mr. Dharam, Mr. Paras and Mr. Anant as its central joint auditors for the year 2021-22. After making sure that all of them are qualified to be appointed as statutory auditor of the bank, Sambhav Limited issued appointment letter as well as engagement letter to all of them. But Mr. Dharam was not clear on some point so he requested Sambhav Limited to slightly change the terms of his engagement. This change will not impact the ultimate opinion on the financial statement. The engagement letter contains the details on objective and scope of audit, responsibilities of auditor and identification of framework applicable. It also contains the reference to expected form and content of report from all three joint auditors.</p> <p>During the year Sambhav Limited has acquired another bank called Aadi Limited. While finalising the books of accounts, some adjustments were made to give the effect of merger. These adjustments were related to determination of goodwill of ` 3 crore, determination of amount of minority interest of ` 75 lakh and some intra-group transaction adjustment of ` 22 lakh were also made. Another adjustment which was made was harmonization of accounting policies of both Sambhav Limited and Aadi Limited which was of 45 lakh. While planning the audit, all joint auditors mutually decided that responsibility of verification of cash book will</p>

be entrusted with Mr. Paras. But Mr. Paras failed to detect the fraud committed by the cashier which he could have detected if he had properly checked the cash book. This fraud was revealed in the special audit which was conducted on the directions of RBI. Responsibility for verifying compliance with SLR requirement was entrusted with Mr. Dharam. While performing audit on compliance with SLR requirements Mr. Dharam used 12 odd dates in different months of fiscal year. Mr. Dharam with his professional judgement used the below mentioned days:

Month	Day of month	Day
April	3rd	Saturday
May	10th	Monday
June	16th	Wednesday
July	9th	Friday
August	27th	Friday
September	2nd	Thursday
October	29th	Friday
November	2nd	Tuesday
December	1st	Wednesday
January	9th	Sunday
February	7th	Monday
March	6th	Sunday

Mr. Anant was entrusted with responsibility for calculation of Demand and time liability. On 31st March total liability stood at ` 250 crore. It includes Margin held for funded facilities of ` 4 crore, credit balance for one branch of ` 6 crore, adverse balance of nostro Mirror account of ` 3 crore and unadjusted deposit for agency business of ` 8 crore.

Wife of CA Dharam was also a Chartered Accountant and was actively involved in purchase and sale of shares. She purchased 500 shares of Shambhav Limited of ` 100 each for ` 9,00,000. All the required communication were made among the joint auditors and significant matters were discussed with those charged with governance. At the end, an unmodified report in accordance with SA 700 was issued which was signed by all three joint auditors.

On the basis of the abovementioned facts, you are required to answer the following MCQs:

Incs.57.1 List down all the months whose date has been selected inappropriately by CA Dharam for calculation of SLR compliance?

- January, February and March.
- July, August and October
- June, July and October.
- May and November.

Incs.57.2 While calculating SLR compliance of Sambhav Limited, what will be value of demand and time liability as on 31st March?

- 246 crore
- 250 crore.
- 237 crore.
- 240 crore

Incs.57.3 Will CA Dharam be disqualified after his wife purchased 500 shares for ` 9,00,000?

- Mr. Dharam will be disqualified as an auditor of Sambhav Limited, as his relative owns shares of more than ` 1,00,000 market value.
- Mr. Dharam will be not disqualified as an auditor of Sambhav Limited, as his relative owns share of less than ` 1,00,000 face value.
- Mr. Dharam will be not disqualified as an auditor of Sambhav Limited, as his relative owns share of less than ` 10,00,000 market value.
- Mr. Dharam will be disqualified as an auditor of Sambhav Limited, as his relative owns shares in Sambhav Limited irrespective of amount of investment.

Incs.57.4	Which of the following statement is true?
<p>a. For giving the effect of merger, permanent consolidation adjustment of 397 lakh and current period consolidation adjustment of 45 lakh was made.</p> <p>b. For giving the effect of merger, permanent consolidation adjustment of 420 lakh and current period consolidation adjustment of 22 lakh was made.</p> <p>c. For giving the effect of merger permanent consolidation adjustment of 442 lakh.</p> <p>d. For giving the effect of merger, permanent consolidation adjustment of 375 lakh and current period consolidation adjustment of 67 lakh was made.</p>	
Incs.57.5	In the given situation whether audit engagement letter issued by Sambhav Limited?
<p>a. Engagement letter issued specify the identification of framework applicable, whereas as per SA 210, it should not specify identification of framework applicable.</p> <p>b. Engagement letter issued doesn't specify the responsibilities of management, whereas as per SA 210, it should also specify responsibilities of management.</p> <p>c. Engagement letter issued specify the expected form of report, whereas as per SA 210 it should not contain the expected form of report.</p> <p>d. There was no discrepancy in the engagement letter issued.</p>	
Incs.58	M23M
<p>POSH Bank of India is a Public Sector Bank founded in the year 1967. The bank has 179 branches all over India as on 31.03.2022. Total Deposits of the bank on 31.03.2021 was ` 50,000 crore. The Motto of the Bank is "Royalty lies in Loyalty". The Statutory Auditors for FY 2021-22 are SAHU & Associates, Chartered Accountants. The audit manager of the firm while reviewing advances has noticed the following:</p> <p>(a) The Advance granted to Mr. Ram has been guaranteed by State Government. However, said advance is overdue since November 2021.</p> <p>(b) As on 20.04.2022, the ad hoc limit of account of Mr. Shyam has not been reviewed even though 120 days of date of ad hoc sanction were over.</p> <p>The above advances have been granted by Meerut Branch. However, this branch is not subject to Concurrent Audit.</p> <p>The Bank has also granted Term Loan of ` 20 crore to Sumati Ltd (An Unlisted Company) on 01.02.2022. The sanction letter read as follows:</p> <p>"The Facility shall be used for Repayment of Unsecured Loans of Promoters – ` 10 crore and towards development & construction expenses (Other than Land Cost) of the company's new office to be situated in Faridabad, Haryana – ` 10 crore".</p> <p>The company has utilized the facility as follows as on 31st March 2022-</p> <p>(i) Land Purchased for New Office: ` 4 crore;</p> <p>(ii) Development and construction Expenses of New Office: ` 11 crore;</p> <p>(iii) Repayment of Unsecured Loans of Promoters: ` 3 crore;</p> <p>(iv) Investment in Fixed Deposit: ` 2 crore (Temporarily);</p> <p>Company's Total Borrowings from all Banks as on 31st March 2022 is ` 60 crore.</p> <p>POSH Bank of India is the parent organization (100% Holding) of POSH General Insurance Co. Ltd. The Statutory auditors of POSH General Insurance are AK & Co., Chartered Accountants (Firm based in Mumbai). Brief Financial Information is as under as on 31st March 2022:</p> <ul style="list-style-type: none"> • Value of Assets: ` 700 crore. • Amount of Liabilities: ` 415 crore. • Capital: ` 200 crore. <p>The POSH General Insurance has entered into reinsurance contract with Fair Reinsurance Co. Ltd. Against the risk of fire only. Fair Reinsurance Co. Ltd. is one of the largest reinsurers in India.</p> <p>Mr. Shri (Partner in SAHU & Associates) also acts as Surveyors and Loss Assessors under Insurance Act, 1938. However, he has not intimated or taken permission from the Council of Institute of Chartered Accountants of India.</p> <p>On the basis of the abovementioned facts, you are required to answer the following MCQs:</p>	

Incs.58.1	As Statutory Auditor of Sumati Ltd, identify the aggregate amount which shall be reported under clause (ix) of Para 3 of CARO, 2020 on account of utilisation of term loans for the purpose other than for which they were obtained?
	<ul style="list-style-type: none"> a. ` 4 crore. b. ` 5 crore. c. ` 7 crore. d. ` 2 crore.
Incs.58.2	As an audit manager of the firm, advice which advance(s) shall be classified as Non-Performing Asset?
	<ul style="list-style-type: none"> a. Mr. Ram. b. Mr. Shyam. c. Both Mr. Ram and Mr. Shyam. d. Neither Mr. Ram nor Mr. Shyam.
Incs.58.3	Based on above data, state whether POSH General Insurance has maintained adequate solvency margin u/s 64VA of Insurance Act, 1938? If no, then state what further action will be done?
	<ul style="list-style-type: none"> a. Yes, solvency margin has been maintained therefore no action is required. b. No, It shall deemed to be insolvent. c. No, It shall submit a financial plan to the authority. d. The requirement of Solvency Margin is not applicable in case of general insurance companies
Incs.58.4	Whether the acting of Mr. Shri as a Surveyor and Loss Assessor is in the violation of Clause 11 of Part 1 of First Schedule of Chartered Accountants Act, 1949?
	<ul style="list-style-type: none"> a. Yes, as specific permission from the council shall be required. b. No, as general permission from the council has been granted. c. No, as specific permission from the council can be obtained at any point of time. d Yes, as general permission is not granted for above occupation.
Incs.58.5	Identify the type of reinsurance contract between POSH General Insurance and Fair Reinsurance Co. Ltd.
	<ul style="list-style-type: none"> a. Treaty Reinsurance. b. Proportional Treaty Reinsurance. c. Non-Proportional Treaty Reinsurance. d Facultative Reinsurance

Miscellaneous MCQs (We didn't link it to any particular chapter)

➤ MCQ No	Incs.10.3, Incs.19.3, Incs.25.1, Incs.25.3, Incs.26.2, Incs.26.4, Incs.29.2, Incs.30.2, Incs.31.4, Incs.32.3, Incs.32.4, Incs.32.5, Incs.36.5, Incs.39, Incs.43.2, Incs.45.5, Incs.54.4.
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**CASE STUDY
MCQs- ISSUED
BY ICAI
(INCS)**

01.	1	d
	2	a
	3	c
	4	c
	5	b
02.	1	b
	2	d
	3	a
	4	c
	5	b
03.	1	d
	2	c
	3	b
	4	a
	5	b
04.	1	a
	2	d
	3	b
	4	d
	5	d
05.	1	b
	2	c
	3	a
	4	c
	5	a
	6	a
06.	1	a
	2	d
	3	c
	4	b
	5	d
07.	1	b
	2	c
	3	d
	4	c
	5	b
08.	1	d
	2	a
	3	d
	4	c
	5	c
09.	1	a
	2	b
	3	c
	4	a
	5	c
10.	1	d
	2	a

	3	b
	4	d
	5	-
11.	1	c
	2	a
	3	c
	4	a
	5	b
	6	d
	7	a
12.	1	c
	2	c
	3	d
	4	b
	5	c
	6	c
13.	1	c
	2	b
	3	a
	4	c
	5	a
	6	d
	7	a
14.	1	a
	2	d
	3	a
	4	a
	5	b
15.	1	a
	2	d
	3	a
	4	-
	5	-
16.	1	c
	2	d
	3	a
	4	b
	5	-
17.	1	c
	2	b
	3	c
	4	b
	5	c
18.	1	a
	2	d
	3	a
	4	b
	5	c
19.	1	a
	2	d
	3	a
	4	b
	5	a
	6	c

20.	1	b
	2	a
	3	c
21.	1	d
	2	a
	3	c
	4	d
	5	-
22.	1	b
	2	b
	3	a
	4	d
	5	-
23.	1	d
	2	b
	3	d
	4	c
	5	-
24.	1	d
	2	b
	3	d
	4	a
	5	-
25.	1	b
	2	c
	3	d
	4	d
	5	-
26.	1	a
	2	b
	3	d
	4	-
	5	-
27.	1	c
	2	d
	3	a
	4	a
	5	c
	6	a
	7	c
28.	1	b
	2	b
	3	a
	4	a
	5	b
29.	1	d
	2	a
	3	b
	4	-
	5	-
30.	1	d

	2	a
	3	d
	4	b
	5	b
	6	c
31.	1	c
	2	b
	3	b
	4	d
	5	b
32.	1	c
	2	d
	3	c
	4	d
	5	a
33.	1	d
	2	a
	3	c
	4	b
	5	a
34.	1	b
	2	b
	3	d
	4	a
	5	d
35.	1	b
	2	a
	3	c
	4	d
	5	d
36.	1	c
	2	d
	3	a
	4	c
	5	b
37.	1	b
	2	d
	3	b
	4	c
	5	a
38.	1	c
	2	b
	3	c
	4	d
	5	d
39.	1	a
	2	d
	3	c
	4	a
	5	b
40.	1	b
	2	a
	3	b

	4	d	
	5	c	
	41.	1	b
		2	a
		3	b
4		d	
5		c	
42.	1	a	
	2	d	
	3	b	
	4	a	
	5	b	
43.	1	d	
	2	c	
	3	d	
	4	d	
	5	d	
44.	1	c	
	2	d	
	3	d	
	4	b	
	5	b	
45.	1	b	
	2	a	
	3	b	
	4	d	
	5	c	
47.	1	a	
	2	c	
	3	c	
	4	a	
	5	b	
48.	1	d	
	2	a	
	3	c	
	4	b	
	5	b	
49.	1	c	
	2	d	
	3	a	
	4	b	
	5	a	
50.	1	d	
	2	a	
	3	b	
	4	c	
	5	d	
51.	1	d	

	2	a
	3	c
	4	b
	5	b
52.	1	b
	2	b
	3	c
	4	b
	5	a
53.	1	c
	2	c
	3	b
	4	c
	5	b
54.	1	b
	2	b
	3	d
	4	c
	5	b
55.	1	d
	2	a
	3	a
	4	d
	5	A
56.	1	a
	2	a
	3	b
	4	c
	5	c
57.	1	b
	2	c
	3	b
	4	d
	5	b
58.	1	c
	2	a
	3	a

	4	b
	5	d



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